Jewelry: Discounters Gain 11.8%; Catalogers Take Half of $5.1B Sales

Nationwide DSN Report

Spurred by novelty items, varied finishes, strong basics and weak apparel direction, jewelry sales managed an 8.5 percent increase to $5.1 billion at discounters nationwide in 1987 compared to the $4.7 billion in the previous year, according to *DSN* research.

The biggest sales gain came from specialty discounters, where sales climbed 16.7 percent to $700 million, while full-line discounters managed an 11.8 percent gain to sales of $1.9 billion during 1987. However, still pulling in the bulk of jewelry sales were catalog showrooms, where sales during the year increased 4.2 percent to $2.5 billion.

At full-line discounters alone, jewelry sales per store rose to $231,900 in 1987 from $209,500 in 1986, but department size remained the same at 650 square feet, producing sales per square foot in 1987 of $356.77 compared to $322.30 in the previous year.

Initial markup also increased at full-line discounters, moving from 49.2 percent to 52.4 percent, while gross margins increased from 40.5 percent to 42.5 percent and turns stayed constant at 2.1.

Problematic Apparel Depts.

For many discounters, these generally improved results were buoyed by the problematic apparel departments. Although jewelry purchases often accompany apparel sales, the lack of excitement in the latter category actually led many customers to update their wardrobes with jewelry.

Newness came to jewelry in several forms, including hoops, dangled and drop earrings, and button and flower touches, along with the hoop.

Varied textures also created interest for discount shoppers, as jewelry companies experimented with matte gold finishes and wood in faded color tones. Colors ranged from bold brights to soft pastels for spring and then moved to clear metallic tones for summer.

At the same time, discounters did well with more conservative offerings in classic styles and spectator colors. Additional interest was generated by a turn toward romantic styles and antique-inspired jewelry.

While discounters' basic costume jewelry line ranged from $3 to $5, several also carried a bridge price point as well. The trend toward more fine jewelry also continued at many discounters, as more realized an improved perceived customer image.

Superstore Fred Meyer rated such success with its fine jewelry that the Portland, Ore.-based chain opened free-standing Fred Meyer Jeweler stores in late 1987. Located in large regional malls, the stores allow Fred Meyer to reach many new customers and also add credibility to the fine jewelry departments chainwide.

Other retailers found additional business by introducing or stepping up their children's costume jewelry selection.

Norwalk, Conn.-based Caldor rolled out a kids' costume jewelry program to all stores that features a tower stand in the jewelry area, just adjacent to kids' apparel.

Jamesway also realized positive results with children's jewelry, which now accounts for 25 percent to 28 percent of the chain's total jewelry business while only accounting for about 15 percent to 20 percent of the assortment.

Going forward, newness will come with rich brights as jewelry takes on a fall approach. While it has been able to survive in the midst of poor apparel sales, jewelry could realize better sales growth if apparel improves.

Jewelry: $5.1 Billion	
Full-Line Discounters	$1.9B
Catalogers	$2.5B
Specialty Discounters	$0.7B
Full-Line Discount Store Productivity	
Sales	$1.9B
Sales Per Store	$231,900
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$356.77
Turns	2.1
Initial Markup	52.4%
Gross Margin	42.5%

Source: DSN research

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Annual Report: Part II

Home Products

Housewares Evolves to Home Lines Approach

Nationwide DSN Report

During 1987, housewares evolved beyond the limitations of its former "hard lines" label at several of the top full-line discount stores, and became the cornerstone on which many chains built a new home lines merchandising division.

The face of housewares was further changed by the growing importance of ready-to-assemble (RTA) furniture, which gained either space, prominence or both in many discount stores.

In contrast, some discounters cut back on space in microwave ovens, and to a lesser extent in microwave cookware, as the microwave oven market neared saturation.

Electric housewares assortments also went through a transition during the year due to the lingering impact of retailers' anti-rebate stance and vendors' decisions to either comply or ignore these demands.

The infusion of color, Eurostyling and graphics into clocks, bath scales, shoe racks and kitchen gadgets proliferated in housewares assortments, warranting a new merchandising approach. In response, many retailers created a home lines division that allows housewares merchandise to be treated not merely as functional products, but as fashion pieces—similar to the way many soft goods are sold.

Creating Home Lines Divisions

Chains such as K mart, Wal-Mart, Rose's, Caldor and Gold Circle each created a home lines division last year, aware that the integrated fashion components of furniture, domestics, tableware and bath accessories are at least as important to most consumers as the product's functional aspects.

Now housewares merchandisers at these and other chains work more closely with manufacturers and merchandisers of related products to offer shoppers products from different categories that can create a coordinated room setting.

At Gold Circle, merchandisers even went so far as to distribute color swatches for use in buying decisions. In some cases, manufacturers created home lines merchandise in colors requested specifically for the Worthington, Ohio-based discount store chain.

After restructuring its merchandising divisions in 1986 in an effort to achieve category dominance, No. 1 discounter K mart introduced a new spokeswoman for its home lines merchandising division. At K mart, the Martha Stewart program acts as the umbrella under which home lines will be bought and merchandised.

Stewart—nationally acclaimed author of numerous books on food preparation and home entertaining—is being employed as a marketing agent to suggest to shoppers that K mart provides them with all the ingredients needed to create the ideal home environment.

Dinnerware is among the first products that will likely bear the Martha Stewart name, according to Marilyn Gill, divisional merchandise manager for home fashions at K mart.

Further cross-merchandising could be viewed at Hills Department Stores, where housewares and tableware products were merchandised in a room setting with RTA furniture.

In fact, discount store RTA buyers told *DSN* they were pleased with vendors' abilities to find innovative ways to duplicate or improve upon preassembled furniture designs. Vendors such as Armstrong RTA—under the tutelage of its preassembled Armstrong parent—and Sauder Woodworking have inspired retailers to give the category room to grow.

Chains such as Caldor and Clover merchandise the category in room vignettes, an approach which until recently was thought to require more space than previous sales levels had warranted.

The ability of RTA manufacturers to duplicate preassembled furniture styles as well as the growing importance of RTA to the furniture business as a whole warranted the participation of most of the major RTA manufacturers at the High Point, N.C. Southern Furniture Market exhibition in the spring.

A high percentage of the RTA vendors at High Point were exhibiting there for the first time, having found the National Housewares Manufacturers Association and its show adequate until recently. Most RTA vendors said they are looking beyond full-line discounters for business, believing that the chains do not fully exploit RTA's renewed sales potential. Even though discounters are devoting more space to the category, they continue to squeeze the maximum number of skus into that space.

Space allocations for microwave ovens, on the other hand, are likely to be cut due to flat sales during 1987 and poor performance to date in 1988.

Last month the Association of Home Appliance Manufacturers announced that as of May, year-to-date shipments of microwave ovens were down more than 12 percent, while overall appliance shipments were down 2 percent from previous year levels. For the month of May, microwave oven shipments were down nearly 15 percent, compared to flat shipments for all other major appliances.

Research conducted by AHAM, *DSN* and oven manufacturers conclude that market penetration of microwave ovens is hovering between 65 percent and 75 percent.

Other electric appliances appear to have been little affected, to date, by the elimination of rebates by many manufacturers. K mart's announcement early in 1987 that it would no longer sell housewares with mail-in rebates triggered similar reactions among other discount chains.

According to *DSN* research, housewares sales were up $400 million in 1987 over 1986 to $13.1 billion at full-line discount stores and catalog showrooms.

Full-line discounters captured $7.1 billion of the total $7.7 billion non-electric housewares market. Sales per discount store rose to $866,600 last year, from $850,500. Average department size grew slightly to 5,900 square feet, from 5,800, while gross margin, turns and sales per square foot were essentially flat at 32.1 percent, 3.3 and $146.88, respectively.

The personal care housewares market grew by about $100 million to $3.1 billion. Full-liners garnered $2.9 billion last year, up from $2.8 billion in 1986. Sales per store ($354,000), sales per square foot ($442.50) and gross margin (21.3 percent) were up slightly last year over 1986.

Full-liners registered $1.8 billion in electric housewares sales last year—out of a total market of about $2.3 billion. Sales per square store grew to $219,700 and sales per square foot increased to $258.47. Gross margin increased to 21.3 percent, from 21.1 percent. Catalog showroom sales in all three housewares catagories were flat: $600 million in non-electrics; $200 million in personal care; and $500 million in electrics.

Housewares*: $13.1 Billion

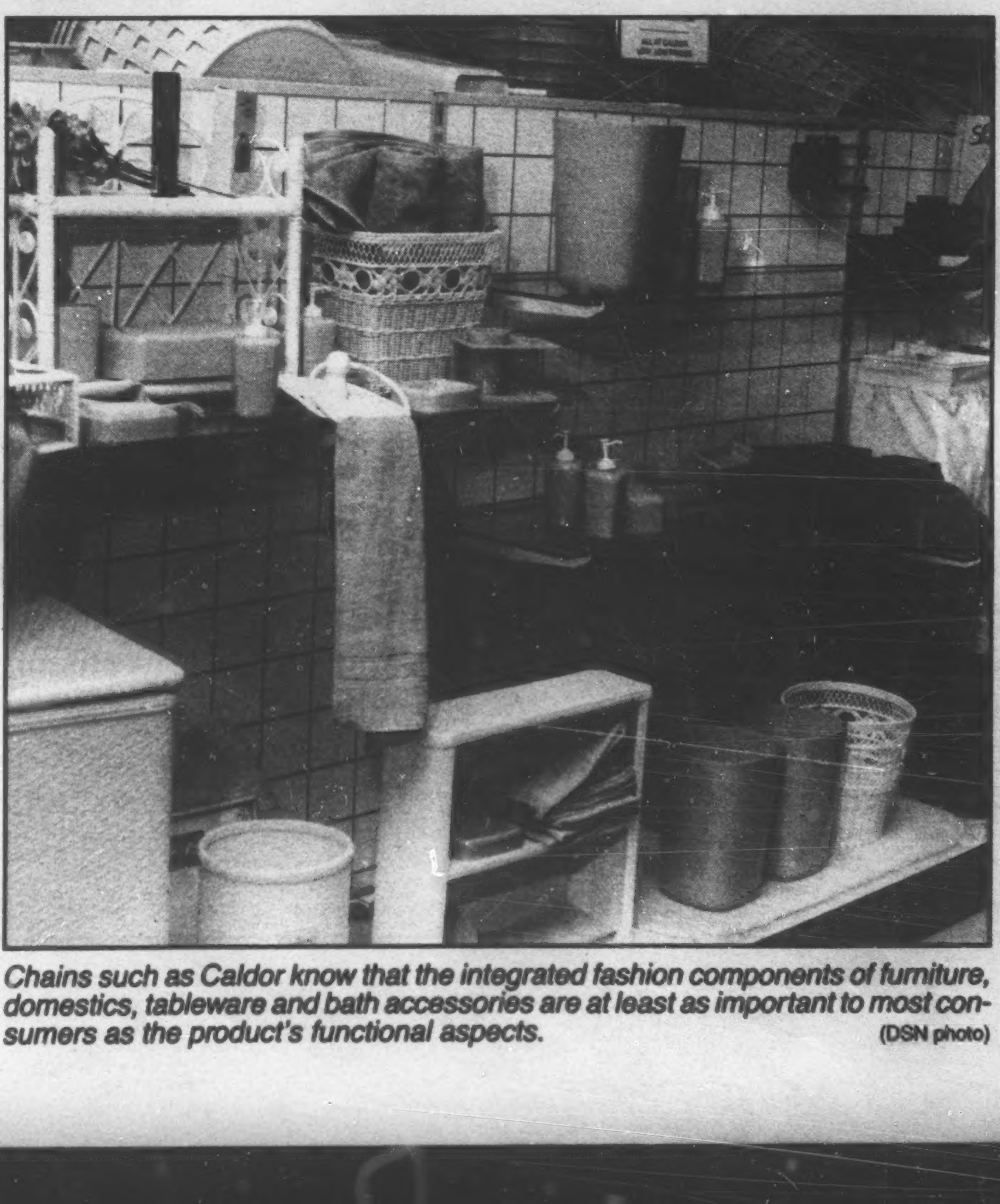
Non-Electrics $7.7 Billion	
Full-Line Discounters	$7.1B
Catalogers	$0.6B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.1B
Sales Per Store	$866,600
Dept. Size	5,900 Sq. Ft.
Sales Per Sq. Ft.	$146.88
Turns	3.3
Initial Markup	40.3%
Gross Margin	32.1%

Personal Care $3.1 Billion	
Full-Line Discounters	$2.9B
Catalogers	$0.2B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.9B
Sales Per Store	$354,000
Dept. Size	800 Sq. Ft.
Sales Per Sq. Ft.	$442.50
Turns	3.5
Initial Markup	30.4%
Gross Margin	21.3%

Electrics $2.3 Billion	
Full-Line Discounters	$1.8B
Catalogers	$0.5B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$1.8B
Sales Per Store	$219,700
Dept. Size	850 Sq. Ft.
Sales Per Sq. Ft.	$258.47
Turns	3.5
Initial Markup	31.8%
Gross Margin	21.3%

**Includes small electrics, personal care, non-electrics and RTA furniture*
NA—not available

Source: DSN *research*



Chains such as Caldor know that the integrated fashion components of furniture, domestics, tableware and bath accessories are at least as important to most consumers as the product's functional aspects. (DSN photo)

Weak '87 Prompts Increase in Higher-End CE

Nationwide DSN Report

The consumer electronics industry tread water in 1987, with hot CD players, camcorders, home office products and stereo televisions offsetting a radical slump in VCR sales. However, the sinking of the dollar against the yen, coupled with a lack of new and exciting technology, could portend bleaker days ahead.

Overall, the industry inched forward about 4.5 percent, in contrast to its double-digit growth of the past, to about $31 billion in factory sales to retailers. Discounters, catalogers and CE chains accounted for $13 billion at retail, according to *DSN* research.

According to *DSN* research, specialty discounters did a little better in 1987 than did full-line discounters and catalogers, increasing sales from $5.5 billion to $5.7 billion. Overall, however, discount share growth in the market was nearly non-existent—$6.3 billion to $6.4 billion—perhaps because of the retailers' limited access to many of the hottest products, like CD players.

Strengthening CE Presence

That may change in 1988, as discounters appear poised to bulk up their CE presence, adding higher-end products and deepening selection. Wal-Mart, which is adding computers on a test basis this summer, and Ames, which is introducing sequestered CE shops to its new prototype, are only two examples.

Discounter retrenchment in the CE field seems to have built up profitability. Markup and margins increased slightly, and sales per square foot likewise inched up to $339.65 at discount stores. The return of profitability (along with announcements of price increases by many vendors) will probably spur further CE activity among discounters in 1988 and 1989.

Apart from currency differentials, one of the greatest obstacles to growth industrywide is a lack of new and innovative technology. Digital audio tape, the most publicized of the contenders, could well turn out to be a bust, and may remain a very expensive product. Tandy's recordable compact disc system, scheduled to appear in 1990, likewise may turn out to be a disappointment to retailers looking for the next big thing. According to the company, the erasable CD is more of a computer than an audio product. What the product can do in the home audio market remains a mystery.

Hope is on the horizon, however, in the form of emerging LCD color video technology. Sony's 8mm Video Walkman, for instance, may be a bit pricey at roughly $1,300 when it's introduced this fall, but its combination of portability, excellent picture reproduction, television reception and adaptability to a palm-sized video camera should make it *the* prestige item among early users at holiday.

Upwardly-mobile business travelers, vacationers and outdoor types alike are almost certain to jump on the product, and as the price comes down, it should spread comfortably to the population at large. With over 1,000 movie and video magazine titles already available commercially, the portable video should not run into the software shortage problems that are plaguing the DAT introduction.

LCD is also being applied to projection TV (by Sharp) and to portable TV monitors (by Sharp and several others) and could quickly become a new and profitable category.

Those products will not hit traditional discount stores right away, though warehouse clubs, catalog showrooms and, of course, CE chains will find them of immediate interest.

Discounters, which have virtually dropped out of the LP album market in favor of CDs, will probably be most interested in recent applications of CD to portable players, midrange components and boom boxes. These products will continue the spread of compact disc technology to the masses, meaning that discounters are primed to cash in on what has been the brightest CE success story since the VCR.

Discounters will also benefit from another major bright spot, home office equipment. Fax machines, personal word processors and home computers have all reached mass market level prices, and discounters are reacting by beefing up their home office presence.

Consumer Electronics $13.0 Billion	
Full-Line Discounters	$6.4B
Catalogers	$0.9B
Specialty Discounters	$5.7B
Full-Line Discount Store Productivity	
Sales	$6.4B
Sales Per Store	$781,200
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$339.65
Turns	3.3
Initial Markup	30.2%
Gross Margin	17.4%

Source: DSN *research*

Camcorders, which first entered the discount market last year, continue their hot growth curve. Sales were up last year to about $2 billion, and the Electronic Industries Association estimates a further 20 percent increase to about 2.4 million units.

Another bright spot may be the decision by most manufacturers of blank audio and video tape to call off the price war of the past five years. Nearly all of them have announced significant price increases, and most have added that they will forsake "giveaway" promotions. The idea, one manufacturer said, is to put more profit into these products for both the vendor and retailer. Among those manufacturers announcing price increases were Sony, Fuji, BASF and TDK. Since tape, like accessories in most fields, is viewed as the most profit-intensive area of the industry, the restructuring of prices will be good news to discount retailers.

EIA expects rapid growth in the Super VCR field (with built-in stereo capability and better picture resolution), but even at a projected rate of 3 million unit sales per year by 1989, the category is not likely to rejuvenate the suffering VCR market.

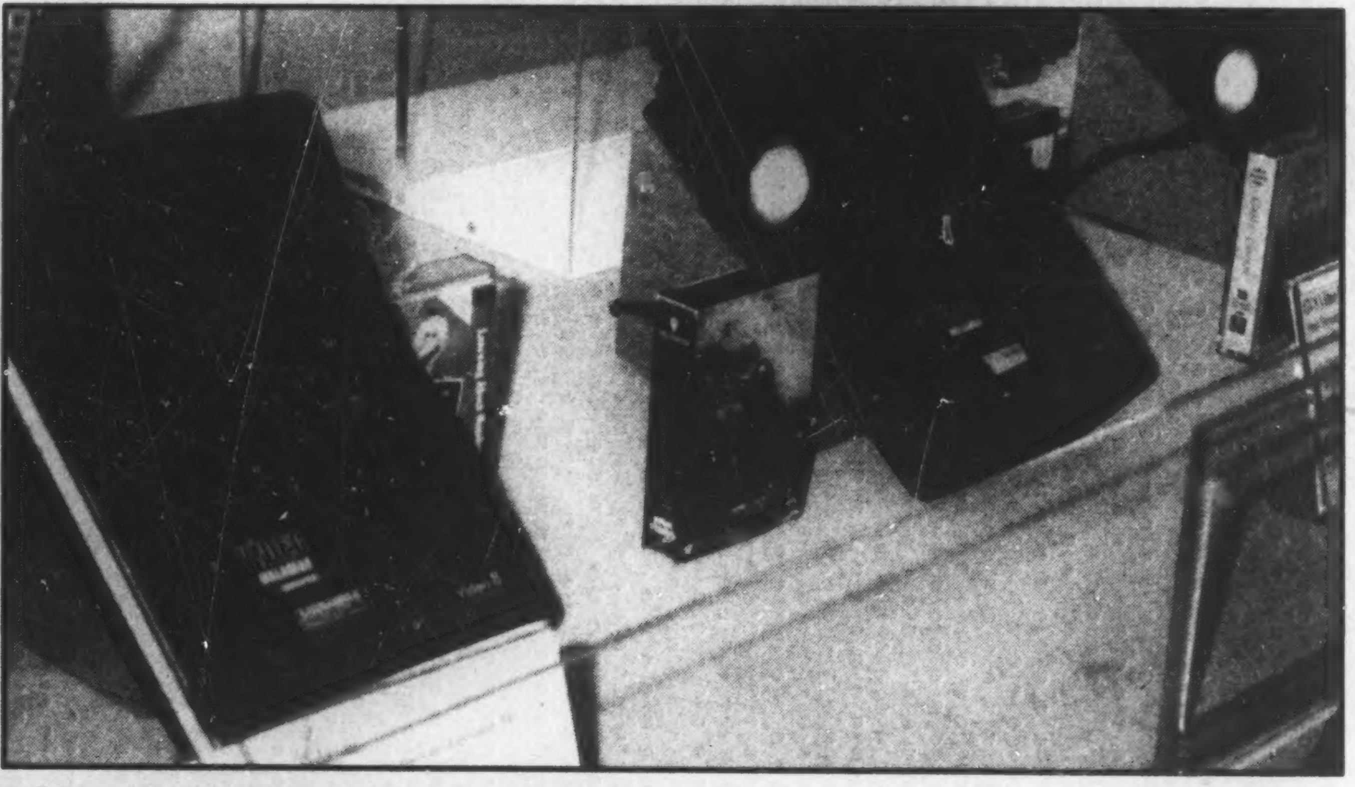
Component and compact audio systems, mainstays of discount CE departments, have been virtually flat in unit sales, and as prices drop, have actually declined in retail dollars. That trend is projected to continue.

Compact disc players, on the other hand, should double unit sales between 1987 and 1989, from 3.3 million units to nearly 6 million.

In terms of department productivity, full-line discounters saw their per store sales of CE products climb to $781,200, from $776,600 the previous year. Sales per square foot were up slightly to $339.65 from $337.65 and gross margin inched up to 17.4 percent from 17.2 percent.

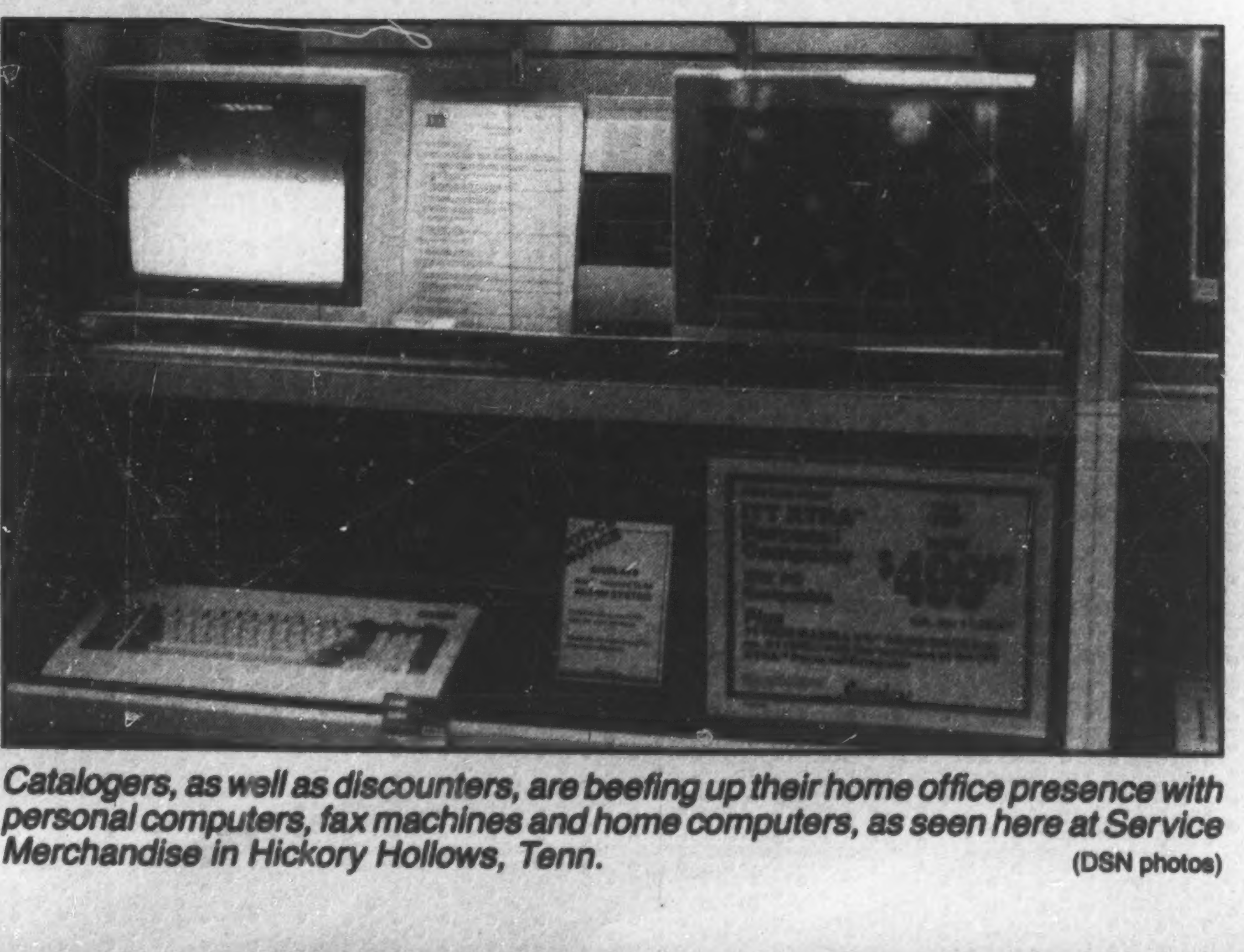
Overall, the industry appears strong. Home electronics has become pervasive among American consumers who have shown that they're not averse to duplicating products as long as some new element is added (like the success of personal stereos in conjunction to home units). Evidently, discounters are now seriously looking at major expansion of their departments, and with the specialty end of the business encountering competitive difficulties, the timing may be right.

According to the EIA, the total industry should grow at about the same rate this year as last, to about $32.4 billion, with accelerated growth (to about $34 billion) next year. Most of the growth will be the result of certain hot categories (like home office), accessories (like blank audio and video tape) and compact disc players.



LCD color video technology is emerging in the form of Sony's new, portable 8mm Video Walkman, which is scheduled to be introduced this fall.

This year, discounters appear ready to bulk up their CE presence by adding higher-end products and deepening selection. Here, electronic typewriters are stacked on an endcap at Wal-Mart's new SuperCenter in Washington, Mo.



Catalogers, as well as discounters, are beefing up their home office presence with personal computers, fax machines and home computers, as seen here at Service Merchandise in Hickory Hollows, Tenn.

(DSN photos)

Flat Domestics Sales Prompt Chains To Create Fashion-Oriented Image

Nationwide DSN Report

Upscaling strategies in discount store domestics departments affected business only slightly in 1987, as home fashions sales remained essentially flat. Discounters have long groaned that domestics was rapidly becoming a commodity market, with minimal profit potential and discouraging results outside white sales and other special promotions. But, some took steps in 1987 to turn the situation around.

The situation was particularly painful because home fashions specialty chains, which were springing up like wildfire, seemed to be doing just fine, retailing roughly the same products discounters carry at considerably more favorable markups, although most offered discounts from department store prices. Overall, the home fashions industry has exploded over the past two years, and projections indicate that the growth may have only just begun.

Why, then, aren't discounters getting their share? The answer to that question, several retailers seem to have decided, is a lack of fashion image. "If consumers feel that a retailer is on top of fashion, they feel more confident spending their money, and they are willing to spend more for that reassurance," one buyer said.

Creating a Fashion Image

The problem that remains, however, is how to create a fashion image in an environment that, quite frankly, simply can't afford to look au courant. "A high-fashion bed and bath shop just runs counter to what discounting is all about," another buyer pointed out.

The answer, several chains decided last year, lies in coordination. The leader in adopting the concept was Gold Circle, the Worthington, Ohio-based discount store division of Federated Department Stores.

Its answer, a program called HomeViews, combined semi-exclusive fashion products in a color palette that extended from bath towels to bathrugs, sheets, ceramics, window treatments and comforters.

All products were collected in a central area within the home fashions department, with individualized signing and videotape presentations to familiarize customers with the concept.

All seemed to be going well, as a chainwide premiere in early March created, at some stores, nearly empty shelves.

However, as rumors of an impending takeover of parent Federated spread through the industry, plans to expand the program were placed on hold, and shortly after Federated's acquisition by Campeau, several key buyers and merchandisers left, including senior vice president for soft home, Steven Fishman, who left Gold Circle for Caldor.

With Gold Circle's future in the balance (a proposed management-led leveraged buyout has so far failed to materialize), the HomeViews experiment remains on hold.

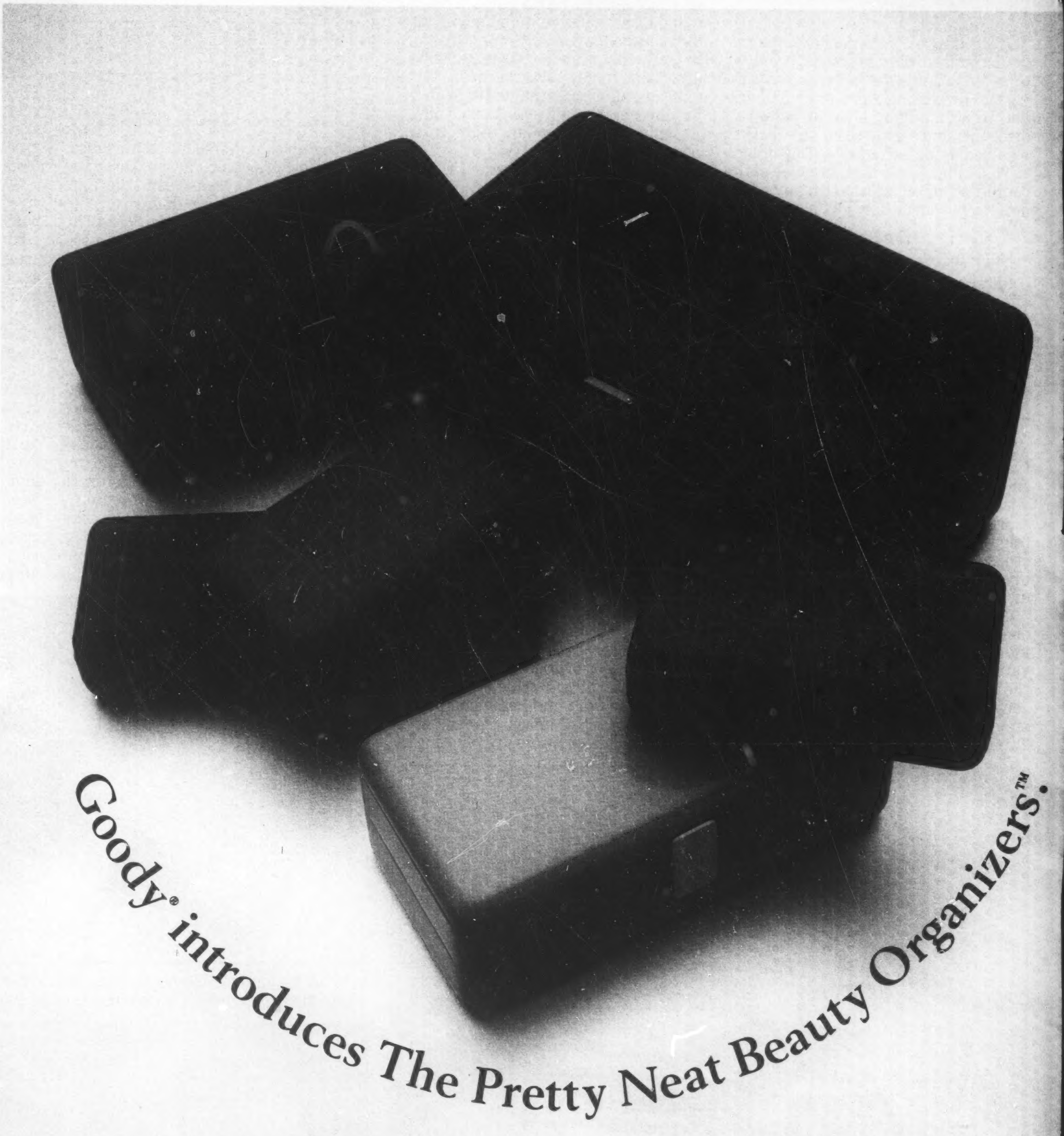
However, preliminary results were encouraging, and other chains utilizing similar, if less comprehensive, approaches have also encountered a degree of success, causing more chain buyers to look at the coordinated concept as a potential traffic and sales builder.

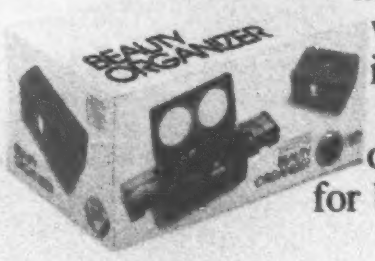
Before he left, Fishman noted that a key issue in the decision to go with HomeViews was that of "differentiation." As discount stores become less and less distinguishable from one another, management has looked high and low for ways to stick out in a crowded marketplace.

(Continued on page 45)

Domestics: $5.2 Billion	
Full-Line Discounters	$3.8B
Catalogers	$0.3B
Specialty Discounters	$1.1B
Full-Line Discount Store Productivity	
Sales	$3.8B
Sales Per Store	$463,800
Dept. Size	3,150 Sq. Ft.
Sales Per Sq. Ft.	$147.24
Turns	2.6
Initial Markup	44.5%
Gross Margin	34.7%

Source: DSN *research*





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While 1987 sales in home fashions at full-line discounters were basically flat, specialty chains carrying much the same products, like this Branden's in Atlanta, are proliferating. (DSN photo)

Upgrading of Fashion Image Vital for Growth

(Continued from page 44)

Target and Gold Circle, to name two, have settled on upgrading their fashion image, and others (Ames most recently) have followed suit.

In the domestics arena, such a move might well prove vital. As more and more retailers have targeted the department for future growth, competition has become much more intensive.

Specialty chains like Atlanta-based Branden's, the Dayton Hudson subsidiary, have been very successful, often selling products found in discount stores, but at prices higher than discount stores.

One explanation for that success among value-conscious consumers is that customers feel more secure buying fashion products from someone who at least ostensibly specializes in fashion.

Although most consumers seem to have become more confident in their decorating capabilities over the past five years, there remains a residual uncertainty about taste levels. Specialty stores offer a certain level of reassurance, and that, at least in part, explains their success.

As domestics becomes more and more competitive, discounters are finding they must upgrade their fashion image.

On the other hand, some discounters have succeeded in introducing a fashion image to their apparel departments, and they seem to be getting better at it every day. There is no real reason to think that the same can't be applied to the domestics area as well.

Gold Circle was (and may still be) well on the way, and textile manufacturers—as concerned with deteriorating profits among mass retailers as are the retailers themselves—seem willing to make the same kind of extra effort with other chains as Dundee Mills did with Gold Circle.

Cannon Mills, for instance, recently introduced a line of coordinated wallcovering borders to go with its mass market sheet, comforter and towel collections. The borders will be available only to mass marketers who sell the Cannon products and are meant to give discounters a means of differentiating themselves in a crowded marketplace.

Full-line discounters garnered $3.8 billion in domestics sales last year, compared to $300 million for catalogers and $1.1 billion for specialty discounters.

Productivity at full-line stores was up slightly in most categories last year: sales per store ($468,800 vs. $456,100); sales per square foot ($147.24 vs. $144.80); turns (2.6 vs. 2.5). Gross margin was down slightly to 34.7 percent, from 35 percent the previous year.

The first real results of several different upgrading strategies should start showing up in industry figures next year. To date, it appears that the more upscale discounters are having a strong 1988, and if that trend holds up, more traditional discounters will probably jump on it in 1989.

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Film, Processing, Accessories Keys to Profit

As competitive pressure has depressed retail prices for cameras, discounters have been forced to look for profits in other areas—such as accessories and photoprocessing.

Nationwide DSN Report

Film usage was up again last year, despite soft sales in some camera categories. The biggest news continued to be 35mm lens shutter cameras, but recent trends indicate that SLRs, which have been in a sales slump over the past five years, may be staging a comeback. This year will see the first widespread introduction of the exciting "bridge" cameras, essentially automatic SLRs.

The term "bridge" is slightly misleading. Ostensibly, it refers to products which mark a step up from lens shutter cameras, but a step down from SLRs. However, with some bridge cameras featuring interchangeable lenses and programmable special effects, there's a question about how much of a step down these cameras actually represent.

Cameras loosely considered in the category include products from Pentax and Chinon, and most major manufacturers are getting into the market. Most of the cameras feature a dual-lens approach, with self-focusing telephoto zoom lenses built in. Operationally, these cameras are much easier to use than are SLRs, and the picture quality is noticeably better than that of most lens shutter cameras. At prices ranging from under $200 to about $350, the category is within reach of most consumers, and it is becoming increasingly clear that consumers value picture quality very highly.

Easy-to-use, relatively inexpensive, automatic SLR cameras—'bridge' cameras—should appeal very strongly to consumers looking to make a step up from their simpler lens shutter models.

Consequently, the category marks a potentially valuable (and profitable) market for all retailers, with an advantage to discounters. The cameras are, on the whole, very easy to use. With automatic focusing (often triple-beam), nearly every picture comes out, and automatic fill flashes alleviate (to a degree) over and underexposure problems.

Assuming that the economy remains relatively healthy through 1989, these new cameras should appeal very strongly to consumers thinking about stepping up from inexpensive lens shutter cameras, but still put off by the complexity of SLRs. Many consumers, now familiar with the simplicity of the latest 35mm products, will choose discount stores as the outlet of choice.

With that thought in mind, several vendors have packaged their bridge cameras in easy-to-stack, colorful and relatively pilferage-proof boxes, with POP information included on the package, to appeal to mass marketers.

According to the Photo Marketing Association's Industry Trends Report published earlier this year, 35mm products have clearly become the cameras of choice among U.S. consumers. Over half the units sold (and three-quarters of the dollar volume derived thereby) were accounted for by 35mm cameras, with lens shutter products accounting for about two-thirds of that segment.

Photo $3.7 Billion	
Full-Line Discounters	$3.4B
Catalogers	$0.3B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$3.4B
Sales Per Store	$415,000
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$638.46
Turns	3.5
Initial Markup	25.5%
Gross Margin	18.0%

NA—not available

Source: DSN research

In the aftermath of this massive acceptance of 35mm technology, competing formats have experienced rocky times. Kodak, for instance, has announced the virtual abandonment of its disc products, once the fastest-growing segment in the market. Rumors persist that Polaroid, the leader in instant photography, is developing its own 35mm system.

According to *DSN*, discounters held steady in their share of the market, increasing sales slightly to $3.7 billion from $3.6 billion in 1986, with most of the growth coming from the full-line discount store end of the market. According to several buyers, though, the profit margin in photo departments continues to decline. While gross margin figures held steady at 18 percent last year compared to the previous year, that figure was the second-lowest of all major discount departments (only CE, at 17.4 percent, was lower).

In other productivity measurements, full-liners' photo sales per store rose to $415,000 from $406,800 the previous year. Average department size was reduced to 650 square feet, from 675 square feet, resulting in a average sales per square foot of $638.46 last year, up from $602.66.

Buyers said that profit has virtually disappeared from the 35mm camera market, with the exception of low-end, point-and-shoot models. Heavy pressure from superstore and mail order photo specialists has depressed camera retail prices, forcing retailers to find other areas to make money.

The two that seem to be clicking are accessories and processing, although the competitiveness in photoprocessing may soon erode margins in that area as well.

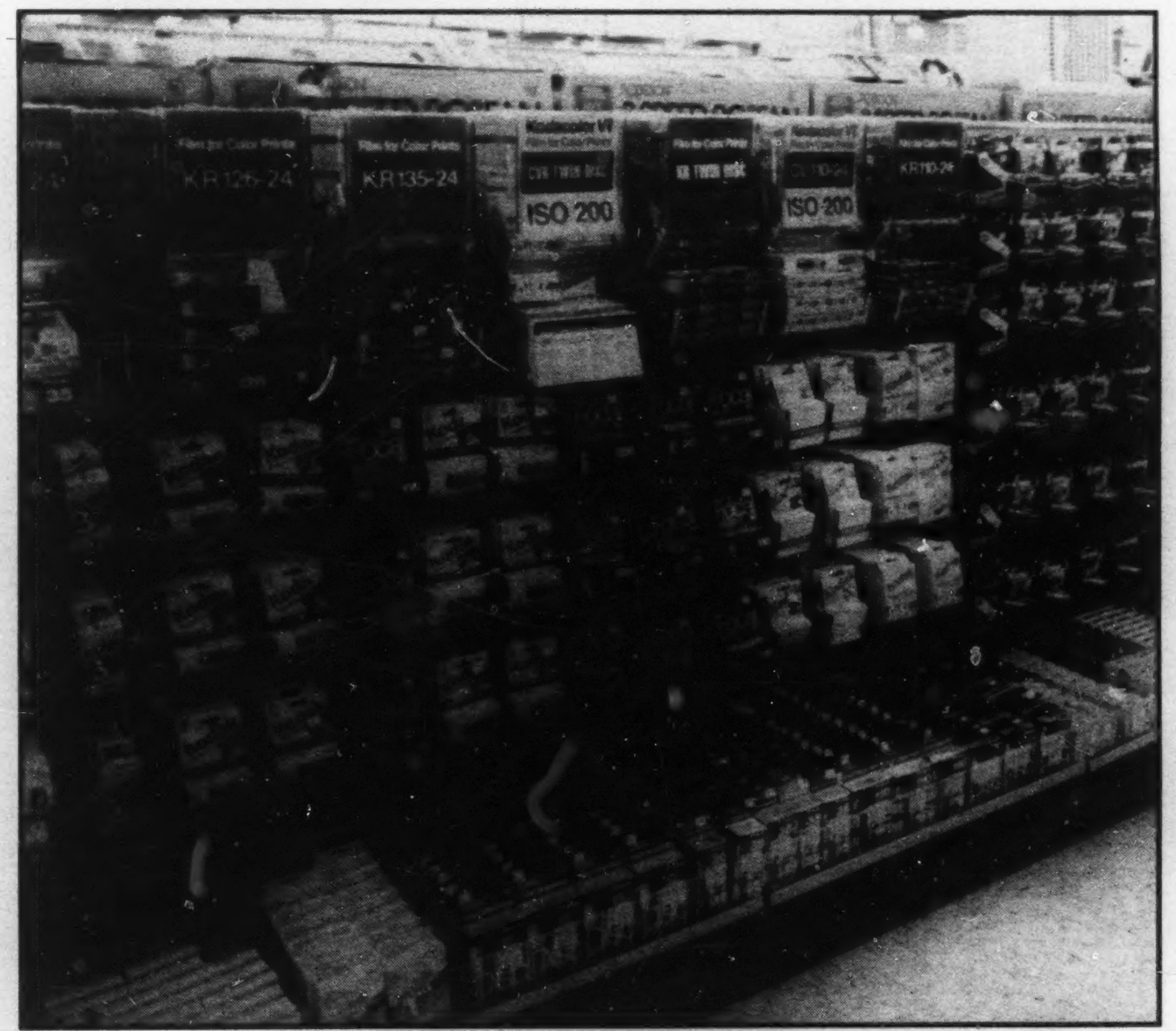
"I'm being priced out of a job," one discount buyer said, adding that management at his chain, after looking at department margin figures, threatened to cut photo products altogether. There is considerable doubt that even new 35mm products, which feature a degree of price maintenance and self-service type packaging, can turn a bleak picture around. The message from discount buyers is that they don't expect the situation to improve much in the near future.

While times have been good for most camera and film manufacturers, a dark cloud looms on the far horizon in the form of digital computer technology. Digital cameras have already reached the market in professional products that totally bypass film. Instead, the image is stored on a computer disc, from which it can be retrieved and printed, or transferred over telephone lines to another computer, which can then create the print.

So far, this technology is in its infancy, used only by a handful of national newspapers, but it will grow up very quickly. Image quality will improve, but it's unknown if it will ever reach the level of the more advanced films on the market today.

Meanwhile, film sales continue to explode, and some discounters have said that the boom in minilab business is all that keeps their photo departments profitable. As consumers have become more familiar with 35mm, the quality of their pictures has improved, leading to more business in the lucrative printing field.

Fuji and Kodak have each introduced small, automatic color printers which allow the operators (potentially the customers themselves) to crop, enlarge or otherwise manipulate the original image on a television monitor, then produce a color print at the push of a button. The size of the units, coupled with their ease of use and the potentially enormous profit they could create, makes them an attractive product to discounters.



Film sales continue to explode. However, profit margins in photo departments continue to decline, particularly on 35mm cameras.

Canon
OLYMPUS
Konica

According to an industry report, 35mm cameras have become the preferred choice for U.S. consumers, accounting for over half of all cameras sold last year and three-quarters of the sales volume.

(DSN photos)

Annual Report: Part II

Hard Lines

Light Truck Accessories Pace Automotive Sales

Nationwide DSN Report

The automotive aftermarket just keeps on truckin'.

As light truck sales continue to capture market share in total vehicle sales, sales of pickup, van and four-wheel parts and accessories are increasing rapidly at an 11 percent clip. That compares with growth of the total automotive aftermarket at 2.8 percent in 1987.

Outpacing the overall market was the growth of discount automotive aftermarket retailers, including full-line discounters, catalogers and specialty discounters. In 1987, these discounters accounted for better than 10 percent of the automotive aftermarket, an estimated $10.1 billion out of a total of $93.6 billion in parts and service. Specialty auto parts discount chains accounted for $4.3 billion in 1987.

With the exception of Wal-Mart, discounters share of the service component, $20.9 billion, continues to slide as automotive service over the past year became even more of an endangered species at full-line discount chains.

Venture closed its remaining 26 service centers in February and has leased the service bays at at least 13 of its 76 stores to tire operators, such as Western Auto's (now Sears) Tire America. Last August, Zayre closed service bays at its last 108 stores that still offered automotive service.

K mart continues its policy of skipping automotive service in favor of soft lines at all new stores and is closing many service centers when remodeling mid-size stores and using the space for apparel expansion. The handwriting appears to be on the wall for automotive service at many of the 500 mid-size stores. Of K mart's approximately 2,200 stores, only an estimated 1,275 offer auto service.

In contrast to K mart's policy, many new Wal-Marts include auto service bays. Out of 1,114 Wal-Mart stores, more than 200 offer auto service. Wal-Mart plans to add 125 new stores this year on top of 134 last year.

Car care malls, which are the hottest new wrinkle in the automotive aftermarket, have drawn the first automotive specialty chains over the past year. Out of the 550 car care malls expected to be operating by the end of the year, three have attracted specialty chains, two Schuck's units in Kansas City, Mo., and one Western Auto store in the Fort Worth, Texas, market.

In the case of Western Auto's mall, the developers, the Thompson family of 7-11 fame, have been unable to attract any car care specialty tenants after Western Auto became the first.

Speculation centers on the reluctance of specialty brake, muffler, tune-up and tire chains to locate in the same mall with Western Auto, which provides general car service that would compete with them all.

On the other hand, Goodyear, which also offers general auto service, co-exists with specialty shops in many another car care mall, leading to another theory: following its financial problems from taking Southland private this spring, the Thompson family might be having difficulty developing its car care mall subsidiary.

The rapidly booming quick lube field continues to attract the attention of some discounters and specialty chains.

Wal-Mart opted for a quick lube operation, rather than general automotive service, at its Hypermarket USA, opened last December outside Dallas.

OTASCO, Tulsa, Okla., is testing quick lube centers at about 20 of its 222 stores.

The latest to venture into the field is USA-1 Auto Parts, a 17-store, parts-only chain based in New York, which is preparing to add quick lube service at four or five of its larger stores.

Pickup trucks are becoming the "cheap" second, or even first car of the '80s. Light truck sales accounted for 31.2 percent, or 4.7 million, of the 14.9 million vehicles sold in the United States in 1987. In 1988, the percentage will increase to 34 percent, the Automotive Parts and Accessories Association predicted.

Automotives $10.1 Billion	
Full-Line Discounters	$5.7B
Catalogers	$0.1B
Specialty Discounters	$4.3B
Full-Line Discount Store Productivity	
Sales	$5.7B
Sales Per Store	$695,800
Dept. Size	2,400 Sq. Ft.
Sales Per Sq. Ft.	$289.92
Turns	3.1
Initial Markup	34.1%
Gross Margin	25.4%

Source: DSN *research*

Youthful buyers—25 percent of whom are women—often economize with a basic pickup and then rush immediately into the aftermarket to customize them with, say, bed liners, running boards, sliding windows, tool boxes, and special lights and light bars. A substantial percentage spend $1,000 to $1,500 to set their pickups apart from others on the road, the Specialty Equipment Manufacturers Association reported.

With automobiles, aftermarket retailers normally have to wait four to six years for parts to wear out before they can count on big ticket aftermarket sales. Anything for light trucks sells, and wherever appropriate, manufacturers are taking pains to announce that existing automobile products also can be used on light trucks.

All of which helps explain why even chains such as Bradlees, with its soft goods emphasis, have expanded into pickup truck accessories over the past year. Another example: Harts places special emphasis on truck accessories in its new Big Bear Plus hypermarket that opened last month near Steubenville, Ohio.

In merchandising, tires are rolling along. Western Auto bought in rapid succession two tire specialty chains, Tire America and NTW, and now operates a total of 116 tire centers. Capitalizing on its tire expertise, Western Auto expanded last summer into a branded tire program that features virtually every major brand of tire, either in stock or as a special order. Before that, Western Auto offered only its private label program.

Following suit, Pep Boys—Manny, Moe & Jack, is slowly developing a branded tire program to complement its private label.

Converting Bays to Tire Service

In addition to Venture's use of closed service bays for tire service, Zayre converted most of its 108 automotive service centers—which it closed last summer—to tire service centers it calls Tire Slashers.

At membership warehouse clubs, which stock and move a tremendous volume of tires, tire mounting and balancing is the only automotive service offered, besides battery installation.

Full-line discount stores experienced gains in just about every area of productivity in their automotive departments last year.

Sales per store rose to $695,800 in 1987, from $678,000 the previous year; sales per square foot were up to $289.92 from $282.50; turns rose to 3.1 from 2.8; and gross margin climbed to 25.4 percent from 25.2 percent.

DELUXE WIRE WHEEL COVERS
AUTO NOSE BRA

Full-line discount stores, like Gold Circle, experienced gains in just about every area of productivity in their automotive departments last year.

Light truck sales accounted for 31.2% of all car sales in 1987. Full-line discounters, automotive specialty chains and hypermarkets, like this new Big Bear Plus in Wintersville, Ohio, are capitalizing on this trend by offering a full range of accessories.

(DSN photos)

Toy Department Sales Remain Flat at $8.7B

Nationwide DSN Report

High toy prices and a dearth of star performers held sales at the 1986 level last year, $8.7 billion.

Two elements in the annual toy sales total did change, however. Full-line discounters garnered slightly less of the business in 1987 than they did the year before, and specialty discounters such as Toys "R" Us (TRU), got a little more of the annual toy sales total.

DSN research revealed that even with the sales decline, full-line discounters still captured more than half the total toy sales last year, $4.5 billion compared to $4.6 billion in 1986. Specialty discounters tallied $3.5 billion in toy sales in 1987, up from $3.4 billion a year ago. And toy sales at catalog showrooms held steady at $700 million.

And as an industry, discount retailers garnered a full two-thirds the total $12.5 billion retail toy business.

No Sales Growth

Within the discount store industry, however, toys was the only merchandise category of the 13 *DSN* surveyed reporting no sales growth at all between 1986 and 1987.

And of the seven productivity areas *DSN* used to evaluate the performance of the toy category only two, turns and initial markup, showed improvement over the 1986 survey.

Inventory Turns

Inventory turns for toys inched up one-tenth of one percent last year to three turns at full-line discounters. Initial markup rose two-tenths of one percent during the period, to 37.2 percent.

All the other indicators were down, according to *DSN* research.

Toys $8.7 Billion	
Full-Line Discounters	$4.5B
Catalogers	$0.7B
Specialty Discounters	$3.5B
Full-Line Discount Store Productivity	
Sales	$4.5B
Sales Per Store	$549,300
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$219.72
Turns	3.0
Initial Markup	37.2%
Gross Margin	26.6%

Source: DSN research

Toy sales per store fell $17,700, or 3.2 percent, to $549,300. Sales per square foot dropped $1.76, to $219.72. And department size at full-line discounters shrunk by 60 square feet to 2,500 square feet in 1987.

Gross margins also fell, by 2.2 percent, to 26.6 percent.

Much of the sales decline in toys last year can probably be associated with two specific factors:

- Customers were unwilling to buy high-priced electronic toys and instead spent their money on lower-priced basic items such as non-talking, non-dancing plush bears, Tinker Toys and Lincoln Logs;
- Manufacturers failed to introduce any blockbuster, mega-hits last year.

The fallout is everywhere. Discounters like Hills reported it would be concentrating more on basic toy selections this year. And Best Products, a cataloger, last spring announced that it was cutting back on its toy department because of poor sales and an inability to adequately compete against the toy specialists. Instead, the cataloger will be emphasizing developmental toys.

DSN research revealed that even with the sales decline, full-line discounters still captured more than half the total toy sales last year, $4.5 billion compared to $4.6 billion in 1986. Specialty discounters tallied $3.5 billion in toy sales in 1987, up from $3.4 billion a year ago. And toy sales at catalog showrooms held steady at $700 million. And as an industry, discount retailers garnered a full two-thirds the total $12.5 billion retail toy business.

Despite the many declines in the toy business last year, 1987 was not a complete wash out. Plush, ride-ons, games, activity toys and radio-controlled vehicles performed well last year, according to the Toy Manufacturers Association.

New, more sophisticated video games, especially Nintendo, are enjoying a renewed success. And retailers reported a surprisingly strong sales surge in the weeks leading up to last Christmas, TMA reported.

This year, the toy association expects to see good sales for learning games that use the family VCR; toys that involve sophisticated talking and movement mechanisms; and an increase in basic toys that provide children with opportunities for creative play.

Toys "R" Us, the largest toy specialty chain in the country, has reported it is having "a real bonanza" with video games. And analyst Daniel Barry of Kidder Peabody said the extra boost TRU is getting from the developing boom in video games should enable it to "report the biggest sales and earnings gain of any billion dollar retailer this year."

In addition, TRU is also engaged in a major expansion program that calls for 60 new North American stores, including such new markets as Kansas City, Mo., and Western Canada, plus 15 units overseas, including France—also a new market—and 35 new Kids "R" Us apparel stores.

By the end of this year, TRU will have 373 stores plus 107 Kids "R" Us units, 10 of which will be in new markets, including Southern California.

TRU is gaining market share at the rate of 2 percent a year, said Robert J. Schweich, analyst and managing partner of Wertheim Schroder, leading him to predict that TRU will control half of the U. S. toy market by about the year 2000.

But for 1988, the big question mark in toy retailing would have to be what strategies Peter Hayes, the new chief executive officer of Child World—formerly of Gold Circle—will initiate to help the nation's second largest chain recover from its aggressive price cutting program of last year.

New, more sophisticated video games, especially Nintendo, are enjoying a renewed success. This year, the toy association expects to see good sales for learning games that use the family VCR; toys that involve sophisticated talking and movement mechanisms; and an increase in basic toys that provide children with opportunities for creative play.

In 1987, the price cutting strategy initiated by Child World in markets where it competes with TRU was a bruising battle for the No. 2 toy chain.

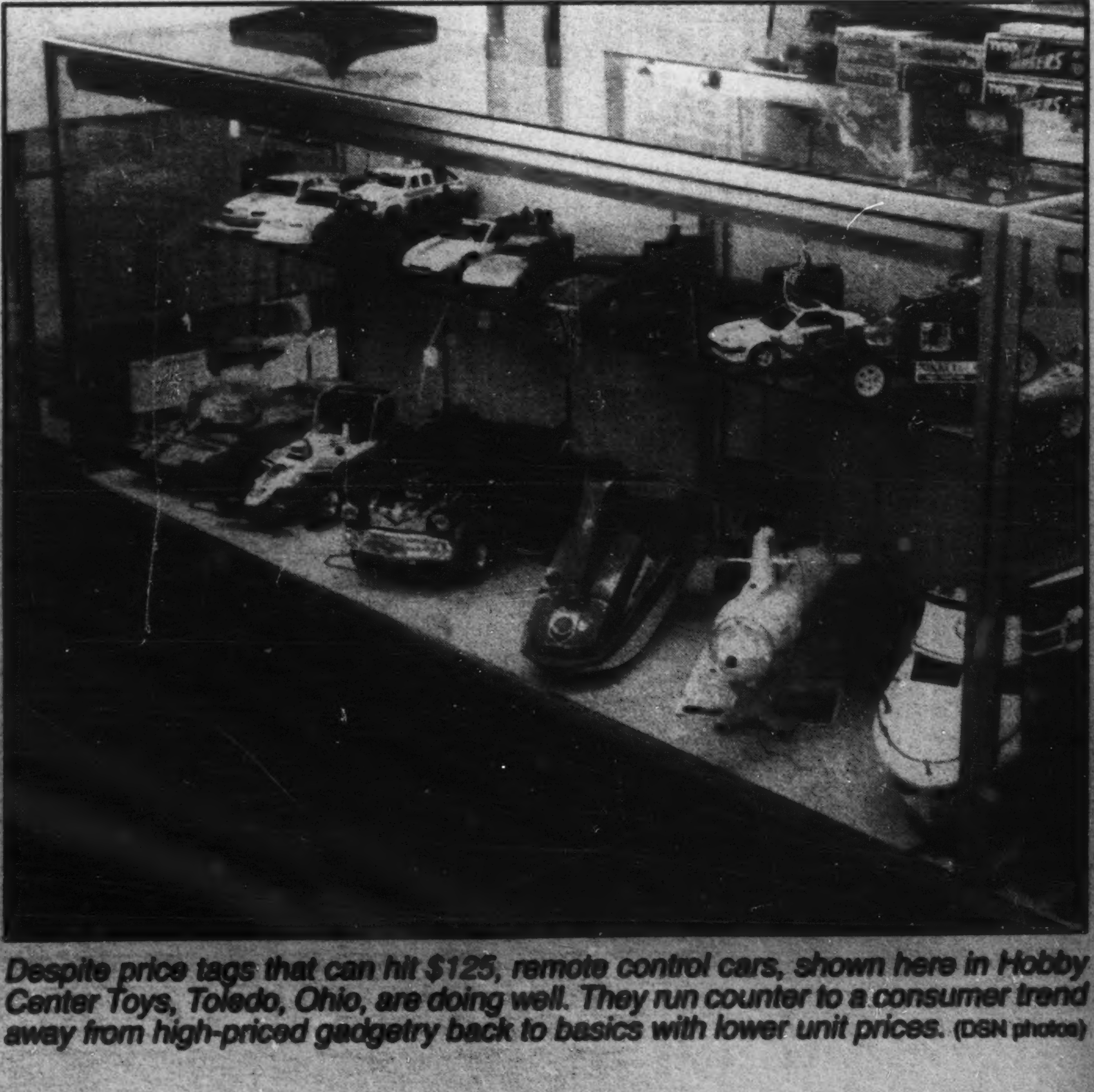
Now that Child World has called a truce, TRU is expected to be somewhat less sharp in pricing.

Despite the dominance of TRU, which claims a 20 percent market share, two chains went public last year. And both of them, Tons of Toys and Wisconsin Toys, are planning to carve out their own market niches and avoid head-to-head competition with TRU, the downfall of 35-unit St. Charles, Mo.-based Toys Plus, which filed Chapter 7 bankruptcy in January.

Tons of Toys, operating 15 stores from it Warehouse, Mass., headquarters, went public last May and plans to enter only secondary markets that are too small to attract TRU interest.

Wisconsin Toys, a toy wholesaler out of Milwaukee, also went public last June. The company has launched a closeout toy chain that operates primarily in outlet malls. Now operating 27 stores, it expects to be running 51 by year end.

1987 was a year of flat toy sales, but toys such as ride-ons, as in this Detroit Meijer, are expected to do well as customers turn back to basic toys that stimulate a child's imaginative play.



Despite price tags that can hit $125, remote control cars, shown here in Hobby Center Toys, Toledo, Ohio, are doing well. They run counter to a consumer trend away from high-priced gadgetry back to basics with lower unit prices. (DSN photos)

Sales of Hardware Edge Up 2.9% for 1987

Nationwide DSN Report

Hardware sales rose modestly in 1987, reflecting the spotty success discounters were reporting all last year with the category.

Sales of hardware products rose a mere 2.9 percent in 1987, to $7 billion. Almost all of it, $6.9 billion, was rung up by full-line discount department stores. Only $100 million of the total was associated with catalogers.

The 2.9 percent increase in the hardware category was among the smallest gains of the 13 merchandise categories surveyed by *DSN*. Hardware products also produced the third-lowest turn rate among the other merchandise categories, 2.5 turns, the same as in 1986.

In addition, statistics on sales per square foot, gross margin and initial markup all declined between 1986 and 1987, reflecting the difficulty discounters are having with the category.

Sales per square foot fell 54 cents in 1987, to $187.16. Gross margins on hardware items dropped from 32.7 percent in 1986 to 32.4 percent in 1987. Initial markups declined to 41.6 percent from 41.8 percent in the year-earlier survey.

Despite all this, full-line discount stores collected a total of $842,200 per store in hardware sales, the fourth-largest sales department in the stores. That total was up 2 percent, or $16,300 per store from 1986. The actual size of the hardware department increased 100 square feet between 1986 and 1987, to 4,500 square feet.

Much of the sales and department size growth can be attributed to line extensions in a number of popular categories. Among them were home security items, basic hardware, cordless tools and assorted rechargeable items, and lawn and garden products, now the driving forces in the department.

Expanding the Selections

Throughout the year, discounters like K mart, Bradlees, Gold Circle and Quality Farm & Fleet, among others, reported they were expanding their selections in these key categories to both build and in some cases revive the hardware business in their stores.

In fact, Quality Farm & Fleet has decided to expand its entire hardware/home improvement department to tap the growing do-it-yourself business. In 1987, Quality began focusing attention on serving the "hot" kitchen and bathroom remodeling sector by offering products in these categories. "It's what customers are looking at," according to Cliff Cook, merchandise manager for Quality.

Hardware* ***$7.0 Billion***	
Full-Line Discounters	$6.9B
Catalogers	$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.9B
Sales Per Store	$842,200
Dept. Size	4,500 Sq. Ft.
Sales Per Sq. Ft.	$187.16
Turns	2.5
Initial Markup	41.6%
Gross Margin	32.4%

**Includes paint*
NA—not available

Source: DSN *research*

Quality also looked at adding water filtration systems and other more traditional home center merchandise lines to its hardware department mix.

K mart, too, has expanded its selection of basic hardware and home improvement products, particularly in its 350 home care center departments, which feature greatly expanded hardware selections.

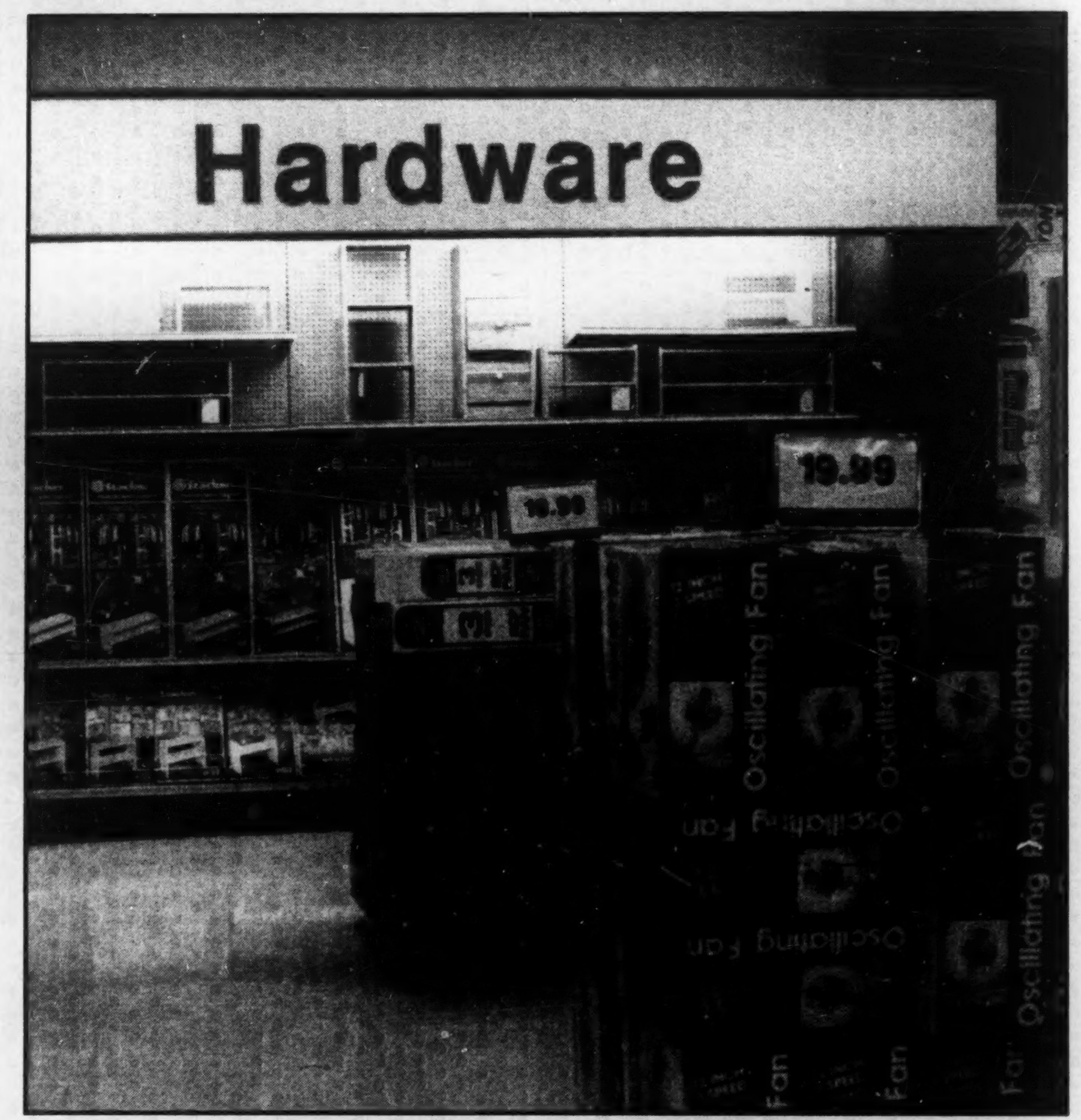
This year K mart plans to add another 50 home care centers for a total of 400 outlets. Roy Jones, buyer in charge of home care center projects, eventually sees a time when home care centers will be in half of K mart's stores.

The home care centers—15,000-square-foot departments containing about 1,200 sku's in the expanded format—were developed for K mart with the assistance of its home improvement division, Builders Square. They were designed to be a "destination department," Jones said.

K mart maintains two formats for the home care centers. The "expanded" version constitutes the thrust of the company's expansion program in this area.

This department features some building materials including dimensional lumber, an expanded line of kitchen cabinets and bathroom vanities, hardware, power tools, paint, electrical and plumbing products.

Many discounters are also tallying some significant sales gains with a somewhat new category of hardware items: tools and accessories in powder blue and pink that are marketed directly to women.



Despite modest hardware sales increases, full-line discount stores (such as this new Ames unit in Winsted, Conn.) collected a total of $842,200 per store in hardware sales, the fourth-largest sales department in the stores.

A number of manufacturers began producing such traditional hardware items as tool boxes and screwdrivers in these fashion colors as a way to enlarge the DIY population and generate sales. Companies such as Akro Mills, for example, touched off a series of new business opportunities for retailers when it introduced its Ms. Fixit line of pink and blue tool boxes. Other manufacturers quickly followed and new product introductions have been continuing.

Many more products aimed at developing a strong female DIY customer base will also come from redesigned tools more suited to women's hands and weight considerations.

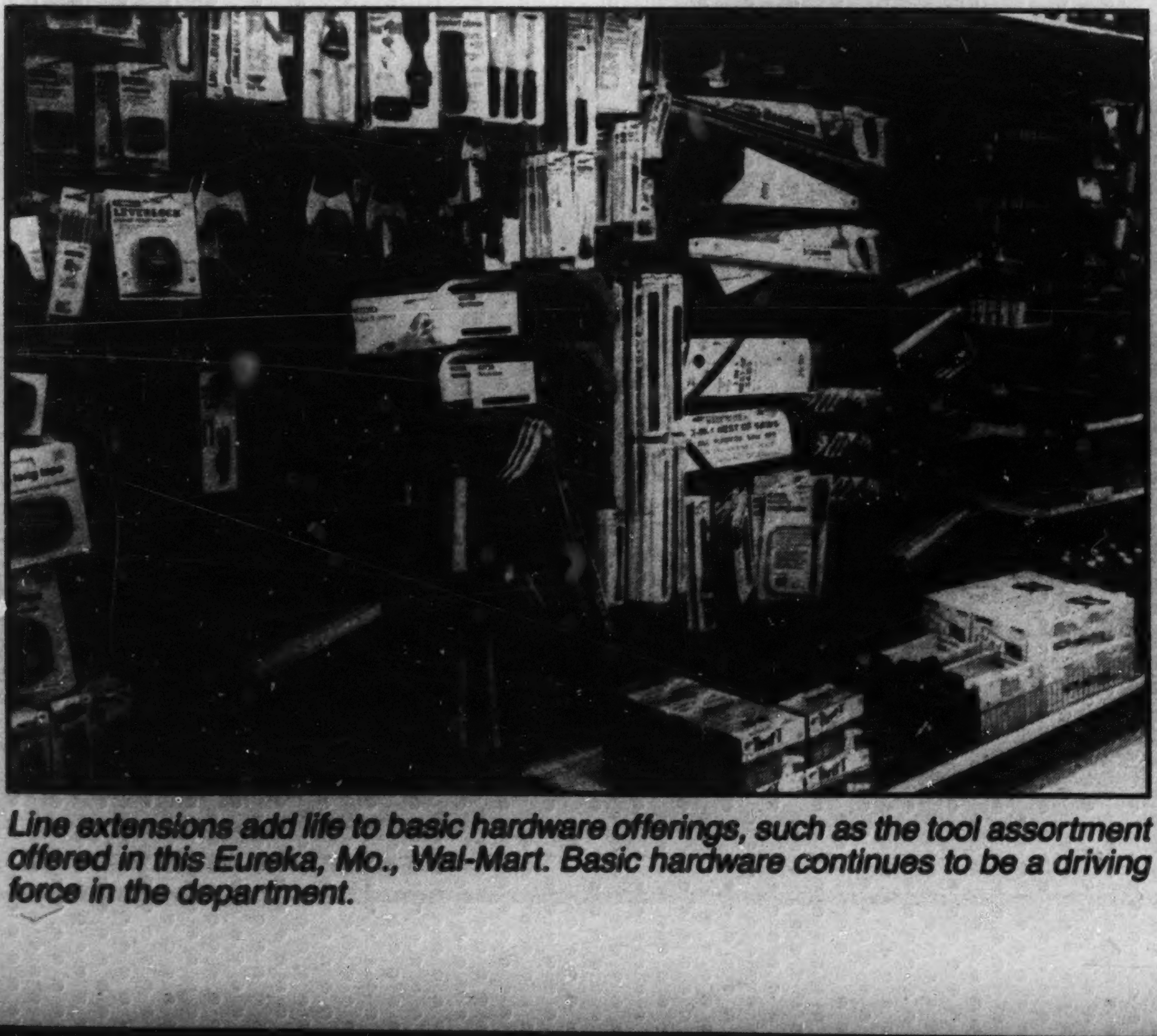
The hardware category, perhaps more than many others, enjoyed a year full of new product introductions. The new products primarily came in the home security area.

Among the new products Gold Circle recently added, for example, are four sku's in Stanley LightMaker controls and a "911 locator," a flashing light for houses that helps emergency vehicles find the correct location.

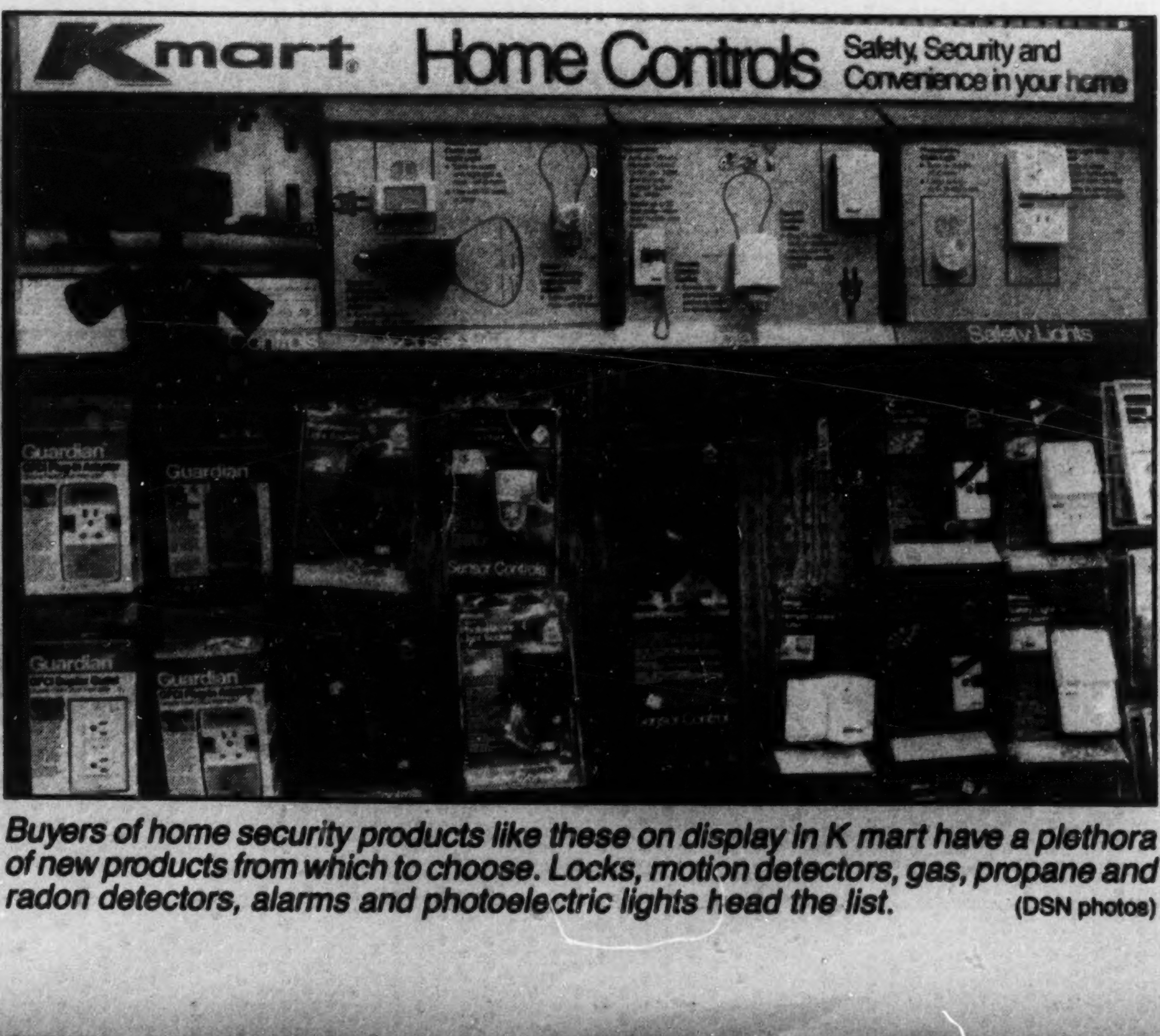
Quality Farm & Fleet added an expanded selection of door locks, a natural gas and propane detector and a radon detector.

Other recent new product introductions in the home security area include Keepsafer Compact and Key 'n' Keyless by Schlage. In the cordless tools category, two recent introductions include Black Decker's cordless power ratchet kit—slated for formal introduction at the August Hardware Show in Chicago—and Dremel's Freewheeler, a multipurpose cordless tool that can cut, grind, sand, saw and drill.

Some new basic hardware items include Stanley's Estimator, an ultrasonic measuring tool with a range of 30 feet; Auto-Test smoke alarm by Jameson Home Products; Light Test smoke alarm by First Alert; and Hang Fast by The Parker Group, an electric wall mounting system that hangs all kinds of household objects with pre-coated, hot-melt glue discs.



Line extensions add life to basic hardware offerings, such as the tool assortment offered in this Eureka, Mo., Wal-Mart. Basic hardware continues to be a driving force in the department.



Buyers of home security products like these on display in K mart have a plethora of new products from which to choose. Locks, motion detectors, gas, propane and radon detectors, alarms and photoelectric lights head the list.

(DSN photos)

'Bigger Is Better' in the Sporting Goods Arena

Sporting Goods: $6.3 Billion

Full-Line Discounters	$4.0B
Catalogers	$0.6B
Specialty Discounters	$1.7B
Full-Line Discount Store Productivity	
Sales	$4.0B
Sales Per Store	$488,200
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$195.28
Turns	2.2
Initial Markup	37.4%
Gross Margin	28.7%

Source: DSN *research*

Nationwide DSN Report

Discounters captured about a third, or $6.3 billion, of the sporting goods market in 1987, including $4 billion for full-line discounters, $600 million for catalog showrooms and $1.7 billion for specialty discounters.

"Bigger is better" is the key phrase for sporting goods retailing in 1988.

K mart is set to test a sporting goods membership warehouse called Sports Giant. In addition to offering broad and deep product lines, Sports Giant proposes to offer the service (such as racket restringing and ski-binding mounting) that keeps customers coming back to specialty shops.

Reflecting the popularity of golf, which enjoyed a 14 percent growth last year, K mart chairman Joseph Antonini has challenged his sporting goods merchandisers to make K mart No. 1 in golfing equipment, as it already is in such categories as fishing tackle and baseball.

K mart initially called its new venture Sports Club of America until All American SportsClub, Los Angeles, slipped into Chapter 11. In efforts to survive, SportsClub closed two of its eight California stores and scrapped plans to build four units in the Phoenix, Ariz. market.

The Sports Authority, Fort Lauderdale, Fla.; Sports Town, Atlanta; and Oshman's new Super Sports stores also illustrate the trend toward opening sporting goods supermarkets that pack in every item chains can obtain.

Despite a cold spring that lapsed overnight into a drought-stricken summer, Americans are undergoing a sports revival.

Repetitive activities such as injury-prone jogging and weight lifting are cooling off, while active outdoors sports like softball, biking, fishing and hunting are booming.

At $1.8 billion in 1987 sales, rifles, handguns and hunting accessories remain the single largest category that the National Sporting Goods Association (NSGA) tracks. Rifle sales rose 7 percent last year, the first year of an increase following several years of declining sales.

Prices in many categories rose steeply last year, said Tom Doyle, research director for the NSGA. Unit volume of aerobic footwear, for instance, rose only 13 percent, while dollar volume jumped 21 percent.

An example of the trend: hiking boots increased 9 percent in units and 24 percent in dollars. Last year retailers sold 3.1 million pairs, at an average price of $48, for a total of $149.8 million. In 1986, 2.8 million pairs sold at an average price of $42.50 for a total of $120.6 million.

Multi-speed bicycles countered the trend, however, as sales declined and heavy imports pressured prices. Units slipped to 5.8 million in 1987 from 6.1 million in 1986; the average price dipped to $161 from $179.50, and dollar volume fell to $930 million from slightly more than $1 billion.

Import Prices Rising

Import prices are rising steeply in many categories, Doyle said, with some overseas manufacturers jacking up prices by 25 percent. The question remains as to how much of the increase retailers will pass on to consumers.

Illustrating the importance of brands in sporting goods, Sears, Roebuck & Co. has moved out of private labels into nationally branded goods, Doyle said.

Among full-line discounters, productivity gains were hard to come by in sporting goods. Sales per store declined from $493,000 in 1986 to $488,200 last year. Sales per square foot fell from $197.20 to $195.28. Turns and gross margin rose slightly to 2.2 and 28.7 percent, respectively.

Total industry sales growth in sporting goods ran 50 percent higher than projected last year.

In a commissioned survey, the NSGA projects that total sales of sporting goods and apparel rose 6 percent to $17.8 billion from $16.8 billion in 1986. The retailer trade association had projected a 4 percent growth rate, as it has for 1988. Sales this year are projected to reach $18.5 billion, the association reports.

This hard working salesman never takes a vacation but he's full of fun and games.

A SPORTCRAFT Plan-O-Gram is a salesman that works all summer long selling outdoor family fun. At SPORTCRAFT we make the games that families love to play in warm weather, like badminton, volleyball, croquet, bocce, horseshoes, beach games and many others. And they're all attractively displayed in our spring/summer Plan-O-Gram.

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Hire a SPORTCRAFT Plan-O-Gram and you'll have a salesman who never complains, and never misses a day. A salesman who works hard all summer long so your customers can play.

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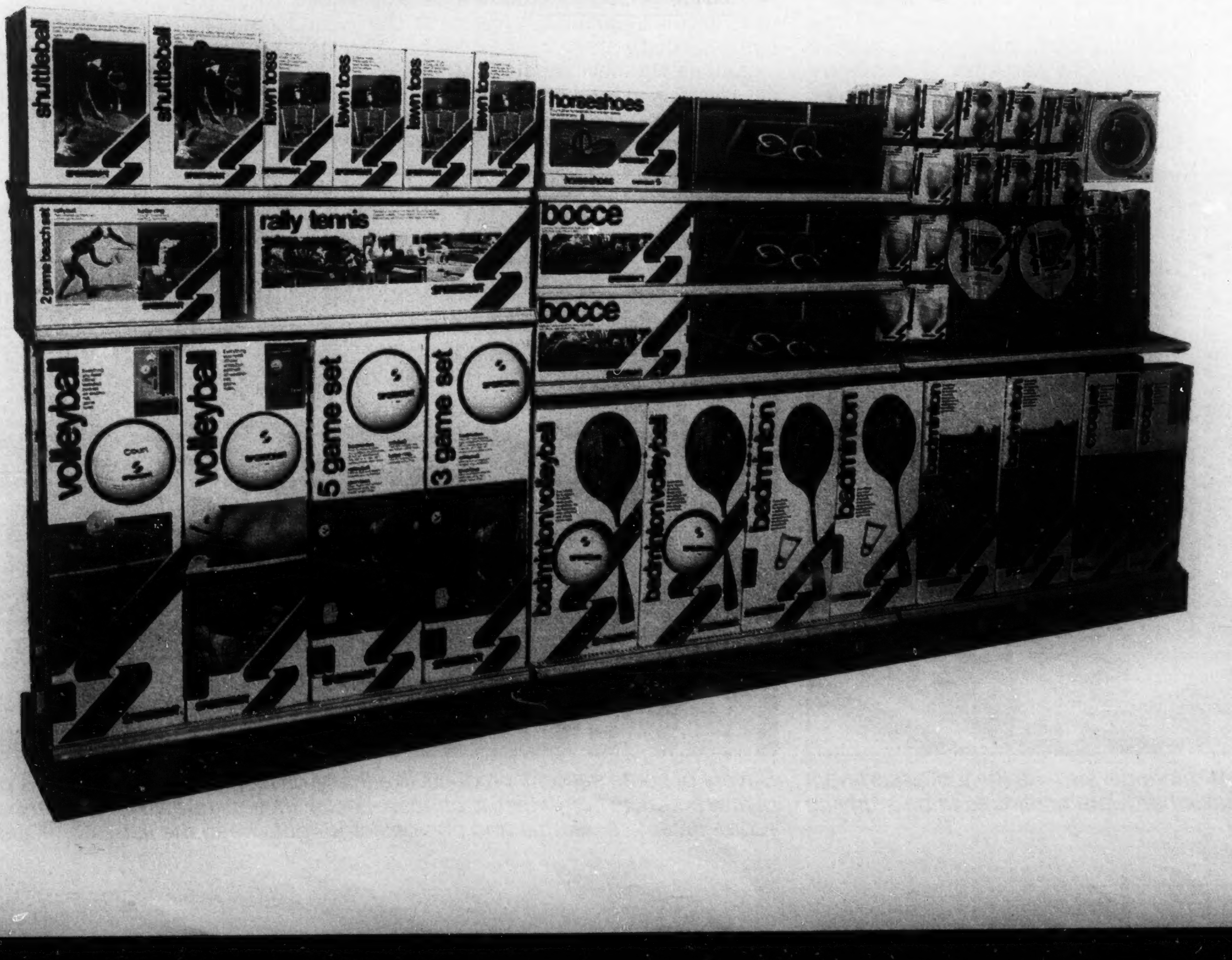

Discounters Enhance H&BA's Fashion Appeal

Health & Beauty Aids: $6.1 Billion	
Full-Line Discounters	$6.1B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.1B
Sales Per Store	$744,600
Dept. Size	3,200 Sq. Ft.
Sales Per Sq. Ft.	$232.69
Turns	5.0
Initial Markup	25.8%
Gross Margin	19.3%

NA—not available *Source:* DSN *research*

Nationwide DSN Report

The health and beauty aids department is undergoing a metamorphosis at many discounters, as several chains have relocated a portion of the department to take better advantage of cross-merchandising opportunities.

K mart, Zayre, Caldor, Harts, Towers and Clover are among the chains that have transplanted a portion or all of their fragrances and cosmetics into an area of the store that enhances the new category's fashion appeal.

The merchandise that remains in the health and beauty aids department continues to undergo significant product changes as contraception, sun care and incontinence products become the sales generators of the '80s.

By extracting merchandise with higher margins from the notoriously low-margin, commodity-oriented health and beauty aids department, retailers have found a way to boost overall gross margin.

The close relationship between "fashion" and "high margins" has prompted retailers to position fragrances and cosmetics either in a boutique-like kiosk or near the watchful eye of the jewelry counter attendant. In either situation, the proximity of juniors' and women's apparel or accessories is considered critical.

The association of "prestige" fragrances and cosmetics to other fashion merchandise sets the stage for a non-commodity purchase, one on which the consumer is likely to spend more time and money.

In response to this trend, many manufacturers including Pavion, Coty and Aziza have designed new fixtures to enhance the glitzy, fashion-forward image that merchandisers are trying to promote.

K mart repositioned fragrances and cosmetics at the front of its stores, adjacent to jewelry and women's accessories. Buyer Leo Camara helped design new, highly-modular fixturing that would allow for open-stock as well as pegged merchandise to be displayed on an neon-lit, black lacquer wall.

Harts and Caldor moved fragrances and cosmetics to the front and center infield area of their stores, neighboring the accessories, jewelry and women's apparel departments in these two chains.

One of the most dramatic repositionings of the department was at the Halifax, Nova Scotia prototype store of Toronto-based Towers Department Stores. The discounter tiled the ceiling above the area with mirrors and lit the department with spotlights and illuminated photo panels.

The 'Boutique' Approach

If part of retailers' approach to "boutiquing" fragrances and cosmetics is to put the merchandise behind glass or otherwise removed from the consumer's reach, sales volume will no doubt be sacrificed, unless the department is well-staffed.

While less glamorous than fashion-oriented cosmetics and fragrances, contraceptive, incontinence and sun care products are spawning new business as health-related concerns escalate.

Contraceptive sales—especially of condoms—are mirroring the increased coverage of the AIDS epidemic.

Similarly, sun care products that are marketed as being formulated to prevent skin cancer and premature aging have also permanently changed the type of merchandise that will be the hot sellers in health and beauty aids.

Buyers said that non-protective formulas such as oils and other low SPFs (sun protection factor) still represent a large portion of sun care sales, but sales growth is coming from the higher SPF products.

Buyers said the sales potential of incontinence aids remained hidden until shelves were stocked with the product. Due to the sensitive nature of the product, most customers would go to a hospital supply store or other source rather than ask about its availability at a discount store. Once the merchandise was available, sales soared.

Discounters generated $6.1 billion in health and beauty aids sales last year, up $200 million from the previous year.

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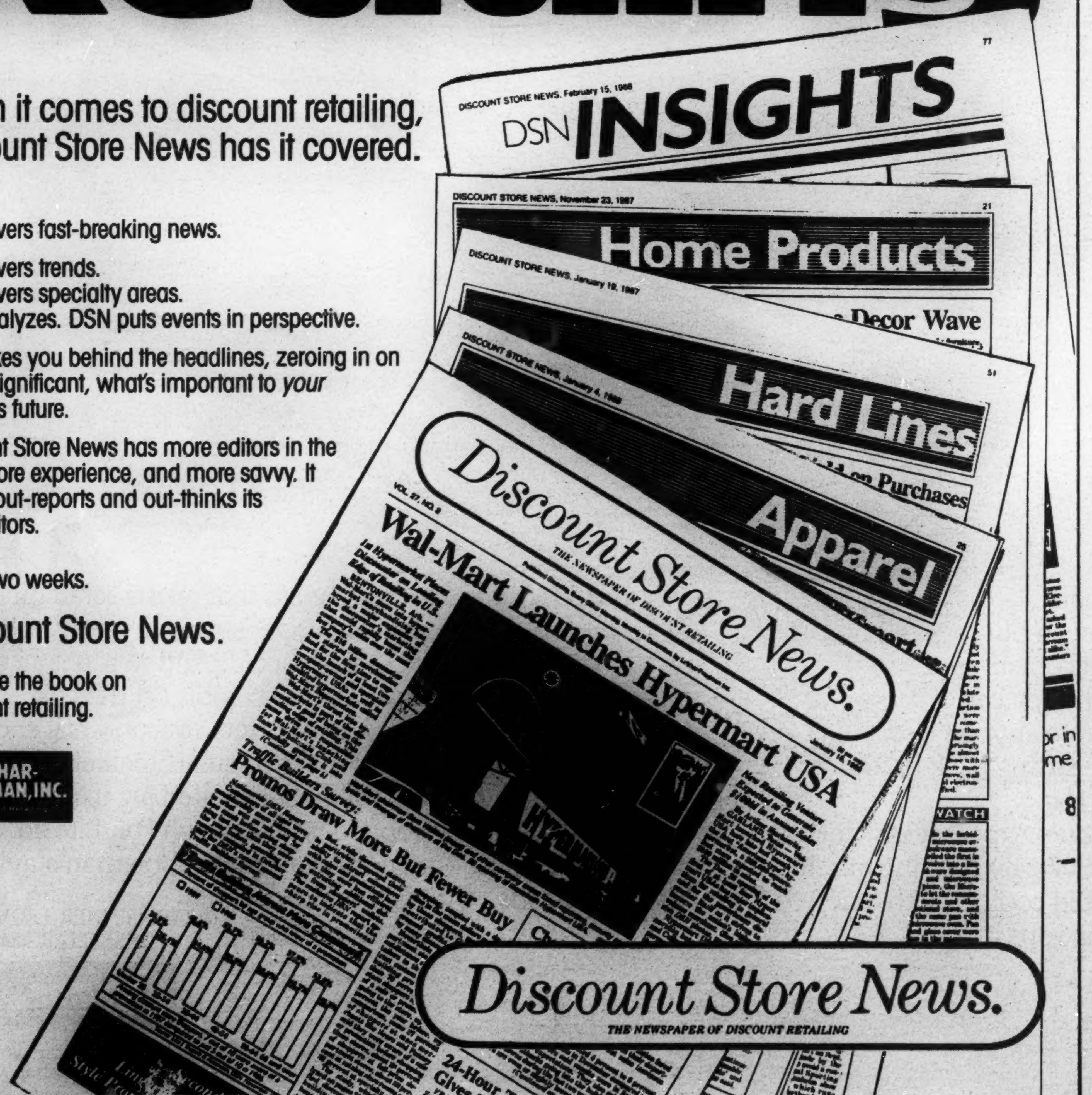
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Apparel
Discount Store News.
Wal-Mart Launches Hypermart USA
Promos Draw More But Fewer Buy
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Home Office Growth Yields Record Stationery Sales

Stationery: $2.7 Billion	
Full-Line Discounters	$2.7B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.7B
Sales Per Store	$329,500
Dept. Size	1,900 Sq. Ft.
Sales Per Sq. Ft.	$173.42
Turns	3.8
Initial Markup	47.2%
Gross Margin	42.2%

NA—not available
Source: DSN *research*

Nationwide DSN Report

Discounters charted a banner sales year for stationery products in 1987, setting several impressive records.

Annual sales for stationery products surged ahead 12.5 percent over 1986, to $2.7 billion last year, making it the fastest growing merchandise category at discount department stores in 1987, according to *DSN* sales projections for 13 merchandise categories, including apparel.

Compared to the other merchandise categories examined by *DSN* from ladies' wear to consumer electronics, stationery products produced the largest sales percentage gain last year, bypassing men's/boys' wear in second place with an 11.2 percent sales increase. In actual sales, however, stationery remains the smallest of the 13 categories.

Stationery also produced impressive results in inventory turns and gross margins, according to *DSN* research.

Inventory turns for stationery products rose from 3.5 turns in 1986 to 3.8 turns in 1987, making it the fourth-most frequently turning product category in full-line discount department stores. The only merchandise categories to surpass the inventory turning rate of stationery in the 1987 survey were health and beauty aids, ladies' wear and men's/boys' apparel.

And when it came to gross margins, stationery products ranked second of the 13 merchandise categories, behind only jewelry. Gross margins in the stationery department in 1987 averaged about 42.2 percent, an increase of 1.4 percentage points over 1986.

The 12.5 percent sales rise in stationery—which does not include sales at office products megastores—last year was fueled by consumers' voracious appetite for home office products and back-to-school accessories.

Full-line discounters continue to enjoy particularly good sales results from stationery products. Sales per store rose 11.4 percent last year, to $329,500. At the same time, full-line discounters recorded a $15.66 jump in sales per square foot, to $173.42.

Departments Grow in Size

Along with these rising sales figures was a growing stationery department. Retailers throughout the country expanded stationery departments last year—and continue to do so—reflecting the growing needs and demands of their customers in back-to-school and home office.

Discounters concentrated stationery department expansion in a few key areas: home office furniture, equipment, storage products, accessories and paper stationery products. These product line expansions helped swell the size of the average stationery area at full-line discount department stores by 25 square feet in 1987, to 1,900 square feet.

Particularly "hot" stationery items last year included file cabinets and other storage products, security boxes and safes, fashion-colored writing instruments, writing paper and envelopes.

Bulk-packaged paper stationery goods continue to gain momentum, a by-product of the rapidly expanding office products megastore concept, which is serving to expand the total stationery market.

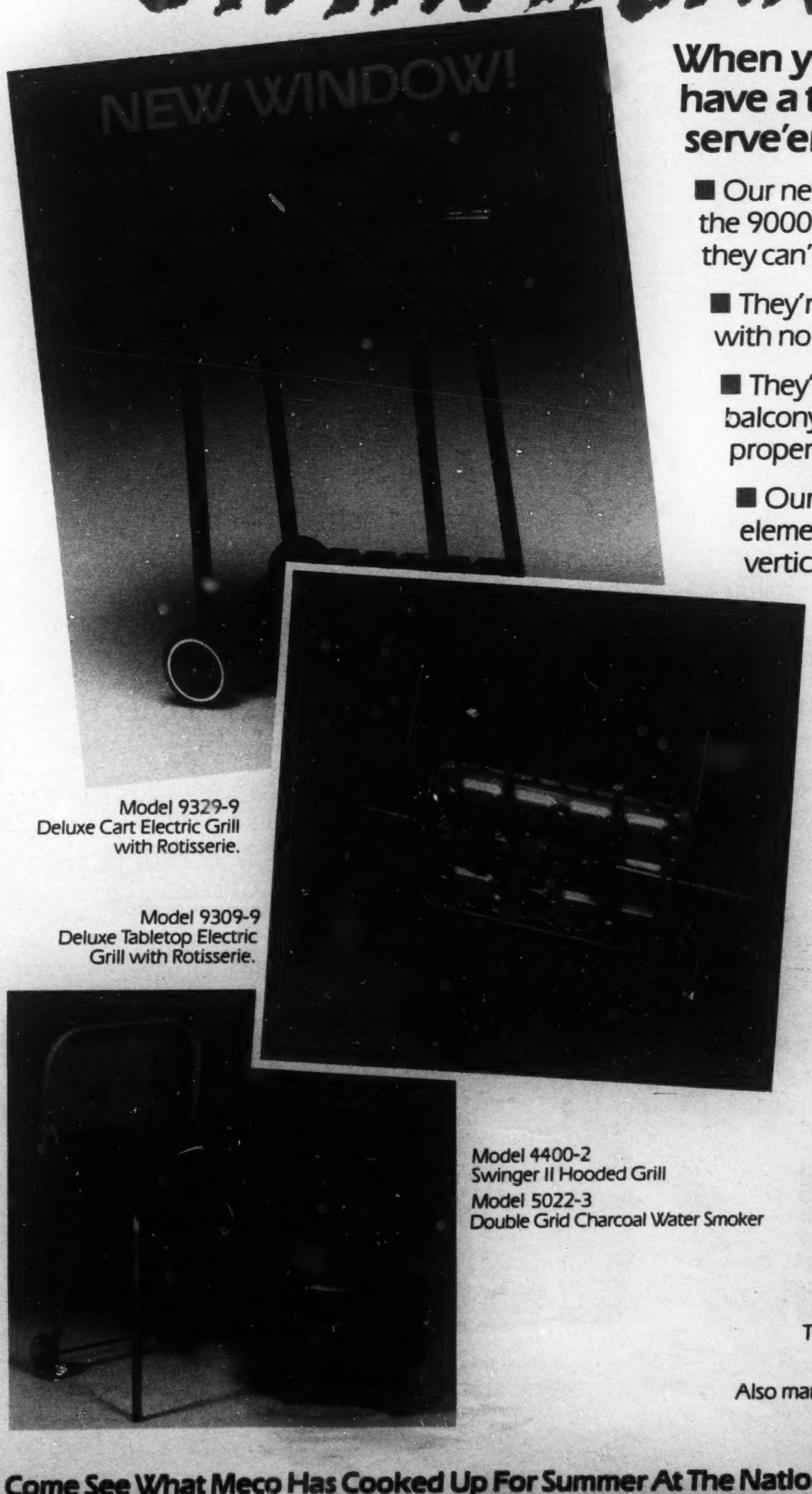
Manufacturers are also working to expand the stationery market by upgrading packaging, product quality and merchandising displays, now geared more often to women, the primary purchasers of back-to-school and home office products.

The fashion trends in stationery products, about two years old, are stimulating sales in a number of sub-categories including paper products and writing instruments.

But color isn't the only fashion statement in the stationery category. More creative designs, graphics and product styles appeared on numerous back-to-school items.

And the growing demand for more upscale home/office stationery accessories by small business operators and home office users also is having a dramatic impact on business. These customers not only want up-to-date fashion and product styling, they want top quality merchandise and are willing to pay for it.

The Hottest New Numbers On The Market!



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Sales Productivity of Top 100 Discount Chains

1987 Rank	Chain	Sales Per Store (In Millions)	Sales Per Square Foot	Sales Per Employee (In Thousands)
1	K mart	$ 10.0	$ 146.46	$ 82
2	Wal-Mart	11.9	169.89	79
3	Target	16.7	167.38	NA
4	Price Club	89.8	816.46	360
5	Zayre	8.6	117.98	NA
6	Toys "R" Us	7.4	160.84	96
7	Service Merchandise	8.8	175.99	136
8	Sam's	32.3	322.74	202
9	Meijer	47.9	355.00	88
10	Ames	4.3	66.58	NA
11	Best Products	10.7	163.92	115
12	Bradlees	12.1	172.35	94
13	Fred Meyer	18.7	177.78	109
14	TJX Cos.	2.2	174.71	NA
15	Marshalls	5.6	193.27	NA
16	Hills	10.0	125.33	69
17	Caldor	12.9	157.91	83
18	Costco	31.9	318.60	274
19	Circuit City	12.9	514.29	193
20	Rose's	5.6	134.32	73
21	Venture	17.2	190.79	127
22	Pay Less NW	4.6	164.84	NA
23	ShopKo	14.7	157.71	NA
24	Gold Circle	12.9	122.56	82
25	PACE	29.4	293.75	190
26	Western Auto	0.5	71.97	86
27	Herman's	3.1	314.88	89
28	Highland Superstores	10.5	697.22	NA
29	Silo	5.0	625.00	NA
30	Child World	4.9	136.88	142
31	Jamesway	6.3	108.88	NA
32	Fedco	58.3	324.07	108
33	Lechmere	26.5	331.25	127
34	Northern Automotive	1.2	225.02	125
35	Kay-Bee	0.9	257.82	NA
36	Dollar General	0.5	79.23	84
37	Ross Stores	4.4	162.85	116
38	BJ's Wholesale Club	30.3	302.63	NA
39	Consolidated Stores	1.9	80.65	61
40	Family Dollar	0.4	62.89	62
41	Pep Boys	2.7	148.68	77
42	Pamida	3.2	132.83	101
43	Alexander's	37.4	144.80	52
44	Thrifty Corp.	3.1	NA	NA
45	Burlington Coat	4.7	85.84	NA
46	Best Buy	11.0	645.59	129
47	The Federated Group	6.4	214.22	NA
48	Heck's	3.5	107.34	84
49	Click	12.4	NA	NA
50	AutoZone	0.9	169.31	63
51	Pic 'N' Save	2.9	120.67	91
52	Chief Auto	0.8	232.11	86
53	Lionel Leisure	4.4	47.42	38
54	Fisher's Big Wheel	3.9	85.57	67
55	Loehmann's	4.2	278.33	NA
56	Oshman's	1.6	156.34	83
57	Clover	15.7	172.68	NA
58	ALCO	2.3	75.11	82
59	Crazy Eddie	7.5	937.50	NA
60	Laneco	9.0	NA	NA
61	Value City	7.2	90.18	70
62	Makro	75.0	416.67	NA
63	Price Savers	25.0	250.00	NA
64	S.E. Nichols	6.7	88.22	80
65	Consumers Distributing (U.S.)	3.3	219.61	NA
66	Tops Appliances	140.0	2,800.00	NA
67	Filene's Basement	12.6	505.45	NA
68	OTASCO	1.2	177.76	98
69	The Wholesale Club	18.1	181.33	172
70	Ann & Hope	43.0	226.32	NA
71	Syms	14.2	283.33	NA
72	Fretter	5.3	NA	50
73	Newmark & Lewis	5.3	584.54	298
74	Bi-Mart	6.5	216.22	133
75	Nationwise	1.2	211.82	93
76	TSS-Seedman's	10.5	52.27	77
77	Brendle's	5.7	101.79	NA
78	Warehouse Club	19.0	190.00	182
79	The Wiz	9.1	1,135.42	NA
80	Rich's	10.3	172.22	72
81	Audio-Video Affiliates	1.8	90.60	NA
82	Sportmart	11.8	294.44	NA
83	Trak Auto	0.9	157.33	82
84	L. Luria & Son	4.8	238.37	77
85	American TV	33.2	552.78	NA
86	Harts	6.6	94.58	32
87	Clothestime	0.5	132.40	55
88	Dress Barn	0.6	143.21	NA
89	Grand Auto	1.6	181.34	82
90	Smitty's	8.5	85.26	25
91	Maxway	1.7	56.99	88
92	Gee Bee	7.4	106.12	52
93	Quality Stores	3.5	146.78	119
94	Whitlock	1.0	95.68	74
95	Greenman Bros.	0.5	134.51	NA
96	Prange Way	7.5	93.75	60
97	Yellow Front	0.9	72.61	60
98	Swallen's	16.3	204.17	134
99	K Merchandise	13.2	175.76	NA
100	Sky City	2.0	40.93	NA

Average Sales Per Store: $5.29 Million

Average Sales Per Square Foot: $161.54

NA—not available

Source: DSN *research*

Clubs, CE Chains Run Most Productive Stores

Nationwide DSN Report

Leading membership warehouse clubs and consumer electronics chains were the top performing retailers last year in terms of sales productivity, according to calculations based on *DSN*'s Top 100 list of leading discounters.

Membership clubs like Price Club, Makro, Sam's, Costco, BJ's and PACE led most other types of retailers with sales per store averages ranging from $29.4 million at PACE to $89.8 million—the highest among all discounters—at Price Club.

Consumer electronics chains—which generally operate smaller units selling relatively big ticket goods—were the champs at churning out the highest sales per square foot of selling space. Tops Appliances, The Wiz, Crazy Eddie, Highland, Best Buy, Silo, Newmark & Lewis, American TV and Circuit City all generated more than $500 per square foot, with Crazy Eddie ($937.50), The Wiz ($1,135.42) and Tops ($2,800) making the most productive use of their display space.

Average Square Foot Sales: $5.29M

Overall, the nation's Top 100 discounters generated average sales of $5.29 million per store last year—at an average of $161.54 per square foot.

Beside warehouse clubs, other store productivity powerhouses included Fedco, $58.3 million; Meijer, $47.9 million; and Ann & Hope, $43 million.

Other sales per square foot leaders included Price Club, $816.46; Filene's Basement, $505.45; Makro, $416.67; Meijer, $355; Lechmere, $331.25; Fedco, $324.07; Sam's, $322.74; Costco, $318.60; Herman's, $314.88; and BJ's, $302.63.

A close look at the sales productivity of the nation's leading discount chains reveals some interesting comparisons.

The three largest discounters in total sales—K mart, Wal-Mart and Target—exceeded the Top 100 average by a wide margin in sales per store. Target's per store sales productivity of $16.7 million and Wal-Mart's $11.9 million in sales per store more than doubled the Top 100 average, while K mart registered $10 million in per store sales.

In sales space productivity, Wal-Mart edged out Target, $169.89 to $167.38, according to *DSN* figures. K mart's selling space was slightly less productive, generating $146.46 per square foot.

Interestingly, Wal-Mart, considered by many as one of the leanest retailers in personnel, fell behind K mart by a slim margin in employee productivity: Wal-Mart posted $79,000 in sales per employee; K mart, $82,000.

Zayre, the nation's fourth-largest full-line discount department store chain, trailed the Big Three in both store and space productivity. Zayre posted per store sales of $8.6 million while garnering $117.98 per square foot of selling space.

Sam's Wholesale Club, which passed Price Club in units and is poised to surpass the industry pioneer in sales this year, still trails the venerable San Diego-based chain by a wide margin in productivity per unit. Individual Price Clubs generated an average of $89.8 million each, with sales per square foot of $816.46. Each Sam's produces an average $32.3 million in sales from $322.74 per square foot.

With the exception of Makro, which generated $75 million per store and $416.67 per square foot, other warehouse clubs more closely matched Sam's productivity figures than Price Club's.

Comparing the two top catalog showroom chains shows that Best Products generates higher per store sales than Service Merchandise—$10.7 million vs. $8.8—but fewer dollars per square foot—$163.92 vs. $175.91. Service appears to be leaner in personnel, with $136,000 in sales per employee compared to Best's $115,000 per employee.

Wide Range of Productivity

Productivity of full-line discount chains varied widely. Among the best performing were Fedco, $58.3 million per store, $324.07 per square foot; Meijer, with $47.9 million per store and $355 per square foot; and Ann & Hope, $43 million per store, $226.32 per square foot.

Other full-line discounters that generated more than $10 million in sales per store included: Fred Meyer, $18.7 million; Venture, $17.2 million; Swallen's, $16.3 million; Clover, $15.7 million; ShopKo, $14.7 million; Caldor and Gold Circle, both $12.9 million; Click, $12.4 million; Bradlees, $12.1 million; TSS-Seedman's, $10.5 million; and Rich's, $10.3 million.

In terms of sales by merchandise category, five of the nation's leading soft lines discount retailers are full-line stores. K mart, Wal-Mart, Target and Zayre each sell more soft lines goods than the two leading off-price apparel chains, TJX Cos. and Marshalls.

In hard goods, K mart more than justifies its claim as the nation's leading hard lines discounter, nearly doubling the sales of its closest rival Wal-Mart.

1987 Discounter Sales by Merchandise Type

Soft Lines Sales Leaders		Hard Lines Sales Leaders	
Chain	Sales (In Billions)	Chain	Sales (In Billions)
K mart	$7.7	K mart	$14.4
Wal-Mart	5.3	Wal-Mart	7.9
Target	2.1	Target	3.2
Zayre	1.8	Service Merchandise	2.7
TJX Cos.	1.6	Sam's Wholesale	2.4
Marshalls	1.6	Best Products	2.1
Bradlees	1.3	Zayre	1.5

Source: DSN *research*

Discount Stores by Region and State

Region/State	Full-Line Discounters	Catalog Showrooms	Membership Warehouse Clubs	Total
New England	466	66	12	544
Connecticut	96	12	0	108
Maine	54	6	0	60
Massachusetts	206	31	10	247
New Hampshire	62	12	1	75
Rhode Island	30	4	1	35
Vermont	18	1	0	19
South Atlantic	2,508	192	43	2,743
Delaware	41	4	0	45
Florida	595	86	18	699
Georgia	404	24	6	434
Maryland	129	22	7	158
North Carolina	527	16	5	548
South Carolina	249	10	3	262
Virginia	367	21	4	392
Washington D.C.	1	2	0	3
West Virginia	195	7	0	202
East North Central	1,448	127	33	1,608
Illinois	372	35	7	414
Indiana	202	21	6	229
Michigan	261	33	7	301
Ohio	478	37	11	526
Wisconsin	135	1	2	138
East South Central	1,255	49	15	1,319
Alabama	290	15	4	309
Kentucky	352	7	5	364
Mississippi	208	8	1	217
Tennessee	405	19	5	429
Middle Atlantic	601	216	15	832
New Jersey	98	43	3	144
New York	233	108	7	348
Pennsylvania	270	65	5	340
West South Central	1,115	90	42	1,247
Arkansas	197	6	3	206
Louisiana	249	13	7	269
Oklahoma	165	9	6	180
Texas	504	62	26	592
West North Central	740	37	32	809
Iowa	135	2	2	139
Kansas	158	7	5	170
Minnesota	119	6	8	133
Missouri	186	16	16	218
Nebraska	83	1	1	85
North Dakota	31	3	0	34
South Dakota	28	2	0	30
Mountain	477	50	17	544
Arizona	138	10	4	152
Colorado	121	15	8	144
Idaho	40	2	1	43
Montana	34	3	1	38
Nevada	17	2	2	21
New Mexico	53	11	1	65
Utah	40	5	0	45
Wyoming	34	2	0	36
Pacific	547	71	74	692
Alaska	4	2	2	8
California	443	50	56	549
Hawaii	8	0	1	9
Oregon	12	5	5	22
Washington	80	14	10	104
Total	**9,157**	**898**	**283**	**10,338**

Source: DSN research

The Discount Industry's Top 100 Chains

				Sales (In Millions)		Percent Change	Earnings (Loss)		Percent Change	Number of Stores		
1987	1986	Chain	Code	1987	1986		1987	1986		1/88	1/87	Proj. 12/88
1	1	**K mart,** Troy, Mich.	DDS	$22,140	$21,308	3.9%	$1,380.0	$1,310.0	5.3%	2,223	2,204	2,263
2	2	**Wal-Mart,** Bentonville, Ark.	DDS	13,248	10,200	29.9	1,067.0	846.0	26.1	1,114	980	1,239
3	3	**Target,** Minneapolis, Minn.	DDS	5,306	4,355	21.8	322.5	311.0	3.7	317	246	342
4	5	**Price Club,** San Diego, Calif.	CLUB	3,323	2,667	24.6	139.7	116.0	20.4	37	34	41
5	4	**Zayre,** Framingham, Mass.	DDS	3,290	3,046	8.0	(13.9)	129.9	—	382	362	394
6	7	**Toys "R" Us,**[1] Rochelle Park, N.J.	TOY	3,137	2,445	28.3	345.9	284.2	21.7	424	338	519
7	6	**Service Merchandise,** Nashville, Tenn.	CAT	2,719	2,527	7.6	44.4	(29.1)	—	309	300	317
8	11	**Sam's,** Bentonville, Ark.	CLUB	2,711	1,678	61.6	NA	NA	—	84	49	102
9	14	**Meijer,** Grand Rapids, Mich.	DDS	2,540	2,310	10.0	NA	NA	—	53	53	NA
10	10	**Ames,** Rocky Hill, Conn.	DDS	2,112	1,888	11.9	57.6	54.3	6.1	488	463	NA
11	8	**Best Products,** Richmond, Va.	CAT	2,067	2,142	(3.5)	47.6	(24.8)	—	194	194	194
12	9	**Bradlees,** Braintree, Mass.	DDS	2,063	1,873	10.1	56.9	56.6	0.5	171	162	110
13	20	**Fred Meyer,** Portland, Ore.	DDS	1,848	1,688	9.5	53.9	45.4	18.7	99	93	110
14	19	**TJX Cos.,**[2] Framingham, Mass.	APP	1,644	1,395	17.8	125.7	104.5	20.3	750	687	815
15	13	**Marshalls,** Wakefield, Mass.	APP	1,603	1,409	13.8	NA	NA	—	286	261	311
16	15	**Hills,** Canton, Mass.	DDS	1,514	1,343	12.7	33.8	(14.5)	—	151	136	167
17	12	**Caldor,** Norwalk, Conn.	DDS	1,502	1,348	11.4	56.0	70.0	(20.0)	116	115	119
18	25	**Costco,** Seattle, Wash.	CLUB	1,370	747	83.4	5.3	4.5	17.8	43	38	52
19	21	**Circuit City,** Richmond, Va.	CE	1,350	1,011	33.5	89.2	71.5	24.8	105	87	125
20	16	**Rose's,** Henderson, N.C.	DDS	1,337	1,199	11.5	31.6	43.6	(27.5)	237	222	256
21	18	**Venture,** O'Fallon, Mo.	DDS	1,202	1,122	7.1	70.0	80.0	(12.5)	70	65	74
22	17	**Pay Less NW,**[3] Wilsonville, Ore.	DRUG	1,200	1,100	9.1	65.0	NA	—	260	218	288
23	23	**ShopKo,** Green Bay, Wis.	DDS	1,100	940	17.0	61.0	53.5	14.0	75	65	87
24	22	**Gold Circle,** Worthington, Ohio	DDS	978	969	0.9	36.7	31.8	15.4	76	76	NA
25	31	**PACE,** Aurora, Colo.	CLUB	940	595	58.0	7.0	(1.2)	—	32	25	39
26	24	**Western Auto,** Kansas City, Mo.	AUTO	931	760	22.5	18.6	15.1	23.2	1,848	2,049	NA
27	28	**Herman's,** Carteret, N.J.	SPORT	762	630	21.0	NA	NA	—	242	200	268
28	26	**Highland Superstores,** Taylor, Mich.	CE	753	656	14.8	13.3	36.1	(63.2)	72	53	83
29	32	**Silo,** Philadelphia, Pa.	CE	750	600	25.0	NA	NA	—	150	119	210
30	29	**Child World,** Avon, Mass.	TOY	749	629	19.1	22.5	26.0	(13.5)	152	134	167
31	30	**Jamesway,** Secaucus, N.J.	DDS	701	612	14.5	11.6	12.1	(4.1)	111	101	123
32	27	**Fedco,** Santa Fe Springs, Calif.	DDS	700	650	7.7	NA	NA	—	12	9	12
33	43	**Lechmere,** Woburn, Mass.	DDS	636	476	33.6	22.7	17.0	33.5	24	17	27
34	NR	**Northern Automotive,**[4] Phoenix, Ariz.	AUTO	625	485	28.9	NA	NA	—	505	474	875
35	41	**Kay-Bee,** Pittsfield, Mass.	TOY	610	487	25.3	NA	NA	—	676	639	726
36	34	**Dollar General,** Scottsville, Ky.	DOLLAR	588	565	4.1	18.4	14.5	26.9	1,302	1,339	NA
37	35	**Ross Stores,** Newark, Calif.	APP	576	534	7.9	18.9	(45.5)	—	131	121	146
38	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	575	350	64.3	NA	NA	—	19	16	22
39	45	**Consolidated Stores,** Columbus, Ohio	CLOSE	571	397	43.8	22.8	36.6	(37.7)	295	219	325
40	40	**Family Dollar,** Charlotte, N.C.	DOLLAR	560	488	14.8	46.8	57.6	(18.8)	1,272	1,107	1,435
41	42	**Pep Boys,** Philadelphia, Pa.	AUTO	554	486	14.0	59.8	55.4	7.9	207	177	242
42	37	**Pamida,** Omaha, Neb.	DDS	526	504	4.4	1.7	NA	—	165	167	168
43	36	**Alexander's,** New York, N.Y.	DDS	523	520	0.6	1.3	4.1	(68.3)	14	14	13
44	81	**Thrifty Corp.,**[5] Los Angeles, Calif.	SPORT	494	359	37.6	NA	NA	—	160	149	NA
45	46	**Burlington Coat,** Burlington, N.J.	APP	491	391	25.6	20.3	17.3	17.3	104	87	125
46	72	**Best Buy,** Minneapolis, Minn.	CE	439	240	82.9	2.8	7.7	(63.6)	40	23	43
47	44	**The Federated Group,** City of Commerce, Calif.	CE	437	430	1.6	NA	(11.5)	—	68	65	61
48	33	**Heck's,** Nitro, W.Va.	DDS	418	565	(26.0)	(61.3)	(18.3)	—	118	172	78
49	NR	**Click,** Akron, Ohio	DDS	396	380	4.2	NA	NA	—	32	32	NA
50	47	**AutoZone,**[6] Memphis, Tenn.	AUTO	384	296	29.7	NA	NA	—	420	386	500
51	56	**Pic 'N' Save,** Carson, Calif.	CLOSE	362	304	19.1	85.7	80.0	7.1	125	101	150
52	65	**Chief Auto Parts,** Dallas, Texas	AUTO	360	256	40.6	NA	NA	—	470	485	492
53	62	**Lionel Leisure,** Philadelphia, Pa.	TOY	344	287	19.9	6.8	10.7	(36.4)	78	65	93
54	61	**Fisher's Big Wheel,** New Castle, Pa.	DDS	335	290	15.5	NA	NA	—	87	81	93
55	49	**Loehmann's,** Bronx, N.Y.	APP	334	323	3.4	NA	NA	—	80	90	86
56	53	**Oshman's,** Easton, Texas	SPORT	333	323	3.1	5.7	5.2	9.6	213	214	225
57	59	**Clover,** Philadelphia, Pa.	DDS	330	300	10.0	NA	NA	—	21	21	22
58	51	**ALCO,** Abilene, Kan.	DDS	329	344	(4.4)	NA	NA	—	146	148	151
59	48	**Crazy Eddie,** Edison, N.J.	CE	315	353	(10.8)	(109.0)	11.0	—	42	32	43
60	NR	**Laneco,** Palmer, Pa.	DDS	315	310	1.6	NA	NA	—	35	35	37
61	60	**Value City,** Columbus, Ohio	DDS	303	293	3.4	NA	NA	—	42	38	45
62	58	**Makro,** Cincinnati, Ohio	CLUB	300	300	0.0	NA	NA	—	4	4	6
63	57	**Price Savers,** Salt Lake City, Utah	CLUB	300	174	72.4	NA	NA	—	12	6	25
64	54	**S.E. Nichols,** New York, N.Y.	DDS	295	281	5.0	(4.8)	2.6	—	44	45	43
65	52	**Consumers Distributing (U.S.),** Edison, N.J.	CAT	280	328	(14.6)	NA	NA	—	85	90	88
66	64	**Tops Appliances,** Edison, N.J.	CE	280	260	7.7	NA	NA	—	2	2	2
67	67	**Filene's Basement,** Wellesley, Mass.	APP	278	248	12.1	NA	NA	—	22	22	22
68	55	**OTASCO,** Tulsa, Okla.	AUTO	275	309	(11.0)	NA	NA	—	221	575	227
69	90	**The Wholesale Club,** Indianapolis, Ind.	CLUB	272	158	72.2	1.5	1.8	(16.7)	15	11	18
70	69	**Ann & Hope,** Cumberland, R.I.	DDS	258	250	3.2	NA	NA	—	6	7	6
71	71	**Syms,** Lyndhurst, N.J.	APP	255	223	14.3	NA	NA	—	18	17	NA
72	63	**Fretter,** Livonia, Mich.	CE	250	273	(8.4)	1.4	4.0	(65.0)	47	45	53
73	76	**Newmark & Lewis,** Hicksville, N.Y.	CE	242	214	13.1	11.3	7.5	50.7	46	34	52
74	73	**Bi-Mart,** Eugene, Ore.	DDS	240	234	2.6	7.1	0.8	787.5	37	36	38
75	78	**Nationwise,**[7] Columbus, Ohio	AUTO	233	200	16.5	NA	NA	—	200	174	300
76	68	**TSS-Seedman's,** Brooklyn, N.Y.	DDS	230	230	0.0	NA	NA	—	22	18	22
77	77	**Brendle's,** Elkin, N.C.	CAT	228	211	8.1	6.8	13.1	(48.1)	40	35	43
78	91	**Warehouse Club,** Niles, Ill.	CLUB	228	157	45.2	NA	NA	—	12	14	12
79	80	**The Wiz,** New York, N.Y.	CE	218	200	9.0	NA	NA	—	24	19	26
80	83	**Rich's,** Salem, Mass.	DDS	217	184	17.9	6.0	6.0	0.0	21	19	21
81	74	**Audio-Video Affiliates,** Dayton, Ohio	CE	212	229	(7.4)	3.9	8.0	(51.3)	117	106	125
82	98	**Sportmart,** Niles, Ill.	SPORT	212	141	50.4	NA	NA	—	18	12	23
83	84	**Trak Auto,** Landover, Md.	AUTO	212	183	15.8	1.3	7.0	(81.4)	245	245	
84	NR	**L. Luria & Son.,** Miami Lakes, Fla.	CAT	205	172	19.2	11.3	7.9	43.0	43	39	47
85	89	**American TV,** Madison, Wis.	CE	199	160	24.4	NA	NA	—	6	6	7
86	82	**Harts,** Columbus, Ohio	DDS	192	187	2.7	9.1	9.2	(1.1)	29	28	NA
87	88	**Clothestime,** Anaheim, Calif.	APP	179	161	11.2	11.5	23.9	(51.9)	338	263	340
88	85	**Dress Barn,** Stamford, Conn.	APP	173	135	28.1	NA	NA	—	302	235	365
89	86	**Grand Auto,** Oakland, Calif.	AUTO	173	166	4.2	5.7	1.4	307.1	106	121	112
90	96	**Smitty's,** Phoenix, Ariz.	DDS	162	145	11.7	NA	NA	—	19	15	21
91	NR	**Maxway,**[8] Sanford, N.C.	DDS	159	241	(34.0)	(4.4)	(18.1)	—	93	75	93
92	87	**Gee Bee,** Johnstown, Pa.	DDS	156	150	4.0	1.7	4.4	(61.4)	21	67	23
93	95	**Quality Stores,** N. Muskegon, Mich.	DDS	155	148	4.7	NA	NA	—	44	42	51
94	94	**Whitlock,** Des Plaines, Ill.	AUTO	155	139	11.5	NA	NA	—	162	177	170
95	92	**Grossman Bros.,** Farmingdale, N.Y.	TOY	153	154	(0.6)	(6.9)	(6.4)	—	325	310	325
96	99	**Prange Way,** Green Bay, Wis.	DDS	150	140	7.1	NA	NA	—	20	20	22
97	NR	**Yellow Front,** Phoenix, Ariz.	DDS	149	145	2.8	9.3	8.9	4.5	171	106	180
98	NR	**Swallen's,** Cincinnati, Ohio	DDS	147	134	9.7	NA	0.8	—	9		9
99	NR	**K Merchandise,** Decatur, Ill.	CAT	145	140	3.6	NA	NA	—	11	11	
100	NR	**Sky City,** Asheville, N.C.	DDS	145	125	16.0	NA	NA	—	72	73	NA

NA-not available
NR-not ranked
Some percentages are based on actual numbers before rounding.
Sales: total store volume from apparel, general merchandise and grocery.
Discount store sales only: K mart, Wal-Mart, Zayre.
Earnings: profit/loss from continuing operations, before income taxes and extraordinary items (except where chains only report net earnings).

[1] *Toys "R" Us includes Kids "R" Us.*

[2] *TJX Cos. includes T.J. Maxx, Hit or Miss and Chadwick's of Boston chains.*

[3] *Pay Less NW included on basis of toy, general merchandise and apparel sales.*

[4] *Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.*

[5] *Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.*

[6] *AutoZone was formerly AutoShack.*

[7] *Nationwise acquired Guarantee Auto in February 1988.*

[8] *Maxway purchased 35 Danners stores in April 1987, kept 18 and sold 17 to Consolidated Stores.*

Source: DSN research

Tough Competition Knocks Venture from Top 20

Venture

	1987	1986	% Change
Sales (In Millions)	$1,202	$1,122	7.1%
Earnings (In Millions)	70.0	80.0	(12.5)
Stores	70	65	7.7

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.

Source: DSN *research*

O'FALLON, Mo. — Buffeted by tough Midwest competition, Venture saw its operating income sag 12.5 percent last year on a modest 7.1 percent sales growth. 1987 sales of $1.2 billion caused Venture to slip out of the top 20 rankings on *DSN*'s list of leading discount chains.

Earnings slipped to $70 million in 1987, from $80 million in 1986 and same store sales gained 0.9 percent.

Venture attributed the $10 million decline in operating earnings to a change in LIFO inventory accounting.

Return on sales slipped to 5.8 percent last year from a robust 7.2 percent in 1986. Venture's return on beginning net assets fell to 19.1 percent from 23.6 percent in 1986.

"We deployed a significant amount of Venture's organizational bench strength to Caldor," said parent May Company. Last year May was "able to replenish the organization in a qualitative manner."

In the case of its executive vice president, Marc I. Balmuth, lost to Caldor in February 1987, where he became president, it took May almost a year to replace him with Richard Rein. Effective Jan. 25, May transferred Rein from Macy's California, where he was senior vice president and general merchandise manager. He serves as executive vp, hard lines at Venture.

At the same time, May brought back Maxine Clark as executive vp, soft lines. Previously an executive vp at Venture, Clark left in 1985 for May's Famous-Barr department store division and most recently was at Lerner as vice president and gmm.

In expansion last year, Venture opened six of its new size stores, 80,000 square feet, and closed one of its 105,000-square-foot stores, for a net gain of five. It ended the year with 70 stores in seven states.

In March, it opened two of four stores planned for this year—in Bridgeview and Belleville, Ill. The other two are slated to open later this month in South Bend, Ind.

In an effort to improve sales per square foot and cut store operating costs, Venture is whacking the size of its stores. Five years ago, Venture was building 116,000-square-foot stores. It built some at 100,000 square feet and 90,000 square feet before settling on an 80,000-square-foot prototype.

Smaller Stores Experiment

In an experiment, Venture opened a 65,000-square-foot store last July in Oklahoma City. Venture added spines to gondolas to push displays to 84 inches high from its traditional range of 54 inches to 66 inches. Above the 84-inch mark, Venture stores goods, allowing smaller units to offer the same assortment of goods, even if in smaller quantities.

The chain is also hoping that the smaller prototype will enable it to compete in smaller markets as well as improving sales per square foot.

In a merchandising step, Venture closed all of its remaining auto service centers, starting with 20 in the Chicago market last August, and the balance of 25 in February.

The service centers were profitable, said a former Venture auto service executive. "But the May Company is soft lines oriented, and the return on auto service isn't proportionate to that on soft lines."

Moreover, Venture president Julian Seeherman is "a big idea man. Auto service was just a small part of Venture's business, and [he] won't put a lot of emphasis on a small part," the source said.

To use the service bay space in about 27 stores, Venture has been leasing it to various tire centers. In several stores where leases were expiring, Venture let the space revert to the landlord.

On the technological front, Venture has gone chainwide with scanning, a move it began in mid-1987.

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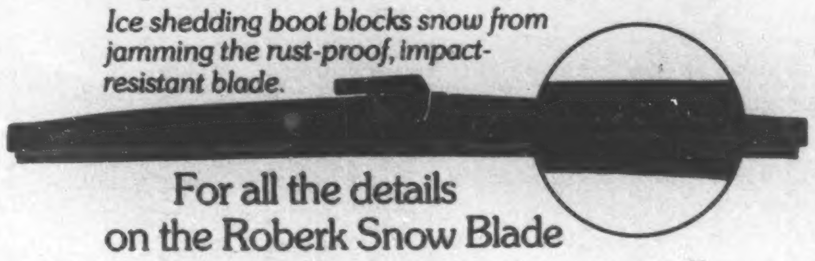
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ANNUAL REPORT: PART II PAY LESS NW

Pay Less Changes Mix, Closes Wonder World Units

WILSONVILLE, Ore. — K mart's super drug store operation, Pay Less NW, has spent the first half of 1988 realigning its merchandise mix, while also ceasing operation of the variety discount chain Wonder World.

Many of the merchandising changes were first made available when Pay Less told vendors this spring that it was cutting back on its grocery selection. Deciding supermarket competition in the category was too intense and that it could make better use of the space; items like cake mixes, canned goods and cereals were eliminated.

28 Feet to 30 Feet of Additional Space

Although 253-store Pay Less is waiting for its warehouse food supply to be depleted by sometime this August, the elimination of the items is expected to eventually present each store with additional 28-foot to 30-foot runs plus promotional space.

This new-found space will benefit several areas, including greeting cards, stationery and home office.

The strength of apparel in some of the larger Pay Less stores has prodded the chain to also expand this category wherever possible. Apparel experience has also presented the chain with additional merchandising knowledge, prompting Pay Less to bring in new lines of tote bags and backpacks for back-to-school.

Pay Less is also looking to tailor its merchandise mix for individual regions. Part of the ability to do this has come from the implementation of a point-of-sale system, which also helps to better control inventories. Currently Pay Less is receiving scanner information from 25 percent of its stores.

However, much of the chain's emphasis is on its core drug store business. Although Pay Less is heavy in general merchandise, the chain is following an industry trend by placing greater emphasis on the pharmacy and basic drug products.

While some changes are already taking place, the chain does not expect total store realignments to be completed until late this year or early next year.

But major moves have already been made with Pay Less' Wonder World stores. First begun in mid-1986, Wonder World was built on Pay Less' Value Giant concept, and then expanded by using former TG&Y and small K mart locations. It was the parent company, in fact, who strongly backed the Wonder Worlds since it presented K mart with yet another specialty unit to explore.

However, after peaking at 16 units last year, Wonder World's count slowly began to dissipate, as first the initial store in Bozeman, Montana was converted to a Pay Less and then the remaining stores had their merchandise mix changed to replicate Pay Less.

The Final Step

The final step was taken this year when Pay Less closed the too-distant Wonder Worlds in Oklahoma and Texas, and the others were officially made into Pay Less stores.

Despite the failure of Wonder World, Pay Less' growth plans remain undaunted, as the chain looks to become the largest drug store operator on the West Coast. Last year, K mart called for Pay Less to double in size, surpassing 500 stores, by 1991.

However, since this goal was set, two prime West Coast competitors became one when Thrfity Drug stores acquired Pay 'n Save. These two retail operations present a combined total of 750 locations on the West Coast.

Pay Less' current plans call for the opening of at least 30 stores this year. In 1987 Pay Less opened 47 stores, with part of this increase coming from the acquisition of 24 Osco drug stores.

Acquisitions may continue to be a key growth vehicle for the chain as was evidenced this year by the move to pick up two Longs drug store locations.

While Pay Less is operating in nine Western states, much of its future growth is planned for its largest market—California.

Pay Less NW

	1987	1986	% Change
Sales (In Millions)	$1,200	$1,100	9.1%
Earnings (In Millions)	65.0	NA	—
Stores	260	218	19.3

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
NA—not available
Source: DSN research

The strength of apparel in some of the larger Pay Less stores has prompted the chain to expand this category wherever possible. (DSN photo)

ANNUAL REPORT: PART II SHOPKO

ShopKo Continues Expansion, Enters New Markets

GREEN BAY, Wis. — ShopKo is set to enter yet another new market this year, while also looking to build on its $1.1 billion sales mark achieved in fiscal 1988.

Not only did sales reach the noteworthy level through a 17 percent increase, but operating earnings also escalated some 14 percent to $61 million, for the year ended Feb. 27, 1988.

ShopKo's results were considered to be of "stellar performance" by its parent company Minneapolis-based Super Valu. In fact, the parent company said in its annual report: "We're very pleased with ShopKo's achievements to date; they clearly warrant continued investment."

The 75-store chain is already slated by its parent to be the beneficiary of $152.2 million in capital investment during fiscal 1989—representing over 40 percent of Super Valu's total $377.5 million capital budget.

12 New Units This Year

Much of this capital contribution is being funneled toward ShopKo's plans to open 12 new stores this year.

Playing a major role in the growth will be a new Utah market. Slated for fall openings are four stores in Salt Lake City and one each in Layton, Ogden and Orem-Provo.

In its usual style, ShopKo is already starting to inundate its new market with publicity, by first playing up the number of local employees to be hired by the stores. And if the chain continues its typical advertising style, local papers, television and radio stations will be filled with an onslaught of ShopKo advertisements aimed directly at its new market just prior to the grand opening.

Here, as in all new markets, ShopKo has devoted extensive research into the region by looking at the consumers, competitors and economic outlook. "Marketing research also continues after the store is open, helping to insure we're in touch with consumers," said firm president William Tyrrell.

During the past year, ShopKo remodeled five stores, relocated one and added 10 new locations. New territories reached in fiscal 1988 included Nevada and the state of Washington.

As ShopKo moves further west it finds itself up against a major force in the Pacific Northwest—Fred Meyer. With new stores running twice the size of the average 93,000-square-foot ShopKo, Fred Meyer is a formidable competitor. However, ShopKo more closely resembles Target, which will also be making a bid for parts of the Pacific Northwest this year.

To help find its niche among the competition, ShopKo gives store managers the authority to customize the merchandise mix and promotions geared around the local needs of each community. "Once an area is deemed viable for growth and a store is built, ShopKo's decentralized management plays a critical role in the store's success," explained Tyrrell.

Keeping Pace with Industry Leaders

ShopKo is also keeping pace with the industry leaders by continuing to implement its point-of-sale scanner system. The chain expects all stores to be operating on the program by May of next year. Computerization has also made its way into ShopKo's in-store sign making, energy management and electronic mail.

While a streamlined inventory system and an automated distribution network have also been implemented by ShopKo, the chain is also concentrating on two growth areas within the store—pharmacy and optical.

The success of ShopKo's pharmacy—first started in 1972 and now in 68 stores—prompted the chain to open an optical department in '78. Expansion has placed optical in 59 stores.

ShopKo

	1987	1986	% Change
Sales (In Millions)	$1,100	$940	17.0%
Earnings (In Millions)	61.0	53.5	14.0
Stores	75	65	15.4

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research

Depend
Depend
Depend

In 1987 ShopKo streamlined its inventory and automated replenishment systems. It is now concentrating on two growth areas—pharmacy and optical. (DSN photo)

Gold Circle Rebounds But Future Remains Cloudy

WORTHINGTON, Ohio — After a year in which profits took a decided upswing, the future of the 21-year-old Gold Circle discount store chain remains uncertain.

The acquisition of Gold Circle's parent, Federated Department Stores, by Toronto-based Campeau Corp., at the start of 1988, threw a monkey wrench into what was a successful turnaround effort during the 1987 fiscal year.

While the battle between Campeau and New York-based R.H. Macy for control of Federated was still being fought, Campeau announced that the sale of Gold Circle and several other divisions would be among its future plans for Federated if it succeeded in acquiring the diversified retailer.

Three possible scenarios for the chain include: a management-led leveraged buyout; the sale of individual store locations to chains such as Hills, Wal-Mart, Harts and Target; and the sale of the chain to a new parent company, though this last possibility is considered by industry and Gold Circle sources to be the least likely occurrence.

Gold Circle's operating profits rose $5 million to $36.7 million during fiscal 1987. This jump occurred after a year in which profits had dropped $7 million. During 1986, profits were negatively impacted by LIFO charges, as well as expenses occurred through the 1985 acquisition of Atlanta-based Richway stores.

Chainwide Remodeling

Factors that played a role in the 1987 profits increase of the 76-unit discounter included the chainwide remodeling program (facilitated by a doubling of Federated Department Stores' capital expenditures for the Gold Circle chain) and a higher proportion of sales arising from soft lines departments.

Sales, which had dropped 8 percent from 1985 to 1986, also showed a turnaround. While sales did not show the same vigor as profits, volume did rise one percentage point during fiscal 1987.

Robert Glass, company president and leader of the proposed leveraged buyout of Gold Circle, said total sales during the year were lackluster due to an industrywide slump in the apparel business during 1987. Much of the apparel market experienced below expected sales levels, especially in women's apparel during the second half of the year, according to industry sources.

Glass' undisclosed LBO offer to Campeau hinges on whether any higher offers for the Gold Circle chain or individual stores is presented to Campeau. Should he succeed in the LBO, Glass will guide the chain's destiny, following the resignation of Gold Circle chairman, Peter Hayes; vice president, general merchandise manager, Steve Fishman, and over half a dozen headquarter merchandisers.

A profitable direction for the chain was initiated during 1987 when the chain reworked its merchandising approach.

The shift to a 45 percent/65 percent hard goods/soft goods assortment in remodeled stores spurred total store sales levels at retrofitted units by about 20 percent. The new racetrack design more than offset the impact of reduced space in hard lines by giving departments such as health and beauty aids and consumer electronics greater visibility and accessibility.

Last year the chain also renewed its commitment to fashion-oriented home lines departments by adhering to a color pallet throughout all related merchandise categories. The established color theme was developed to insure that curtain patterns matched with bath mats, coordinated with lamp shades and generally complemented other merchandise.

Gold Circle

	1987	1986	% Change
Sales (In Millions)	$978	$969	0.9%
Earnings (In Millions)	36.7	31.8	15.4
Stores	76	76	0

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.

Source: DSN research

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ANNUAL REPORT: PART II WESTERN AUTO

Newly Acquired Auto Giant Continues Expansion

KANSAS CITY, Mo. — The 1986 annual report for Western Auto could become a collector's item.

It's the first—and last—annual report that the nation's largest automotive specialty chain will issue as a newly public company.

Because Sears, Roebuck & Co. acquired the chain this April in a deal valued at $402 million in cash and debt assumption, Western Auto won't issue an annual report for the year ended Jan. 2, 1988.

The chain did, however, file a 10-K with the Securities and Exchange Commission, reporting a 22.5 percent gain in sales to $930.8 million in 1987 from $759.8 million in 1986. Comparable store sales gained 13.2 percent.

Tire Chains Boost Revenues

Included in the consolidated revenues were sales of both Tire America and NTW, another tire specialty chain that Western Auto acquired in December 1987. At the same time that Western Auto went public in January 1987, it acquired the Tire America chain. Together, the tire chains accounted for 75 percent of Western Auto's sales increases in 1987.

Operating profits before income taxes rose 23.2 percent to $18.6 million. Net profits jumped 34.6 percent to $10.5 million in 1987 from $7.8 million in 1986. The improvement still left profits at about half the 1985 figure of $21.3 million net earnings on sales of $721.5 million.

Interest expense, which shot to more than $31 million following the chain's acquisition from Beneficial for $8 million, has dampened Western Auto profits.

For 1988 expansion, Western Auto has earmarked $23 million, following $19.8 million in 1987.

For its outlay of $250 million and the assumption of $152 million in debt, Sears acquired 278 company-owned Western Auto stores.

In addition, 1,570 associate stores (down 174 from 1986) operate under the Western Auto banner and are serviced through the company's wholesale division. Privately owned, associate stores tend to be smaller, rural units, and Western Auto has been closing them by the hundreds.

Wholesale revenues in 1987 accounted for 32.7 percent of Western Auto revenues, down sharply from 52.9 percent in 1985.

In its 10-K filing with the SEC, Western Auto said it expects that the number of its associate stores "will continue to decline as a result of a combination of factors including competitive pressures and economic conditions, particularly in rural areas where many associate stores are located."

At the other end of the scale, Western Auto has assisted 320 of its associate stores to upgrade to what it calls Flag Store status, meaning they are essentially the same automotive supermarket format and carry the same merchandise as the company-owned stores.

In addition, Sears acquired 62 Tire America stores and 54 NTW tire stores to add to its total of 797 Sears auto centers.

Sears also has gotten into the wholesale wig and CB radio businesses through Western Auto's Midland International division and its Eva Gabor wig subsidiary. Wigs and radios accounted for 10 percent of Western Auto revenues for each of the past three years.

Combined with Western Auto sales, Sears will command close to $3 billion in annual revenues from automotive parts and service.

(Continued on page 97)

Western Auto

	1987	1986	% Change
Sales (In Millions)	$ 931	$ 760	22.5%
Earnings (In Millions)	18.6	15.1	23.2
Stores	1,848	2,049	(10.9)

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research

In addition to its 278 company-owned stores (below), 1,570 privately owned associate stores—primarily smaller units in rural areas, like this one in Millersburg, Pa. (right)—operate under the Western Auto banner. Western has been closing these associate units and is testing a new franchise system in 1987, whereby operators would pay franchise fees and follow company merchandising and service policies. (DSN photos)

WESTERN AUTO

Western Auto

ANNUAL REPORT: PART II CHILD WORLD

Challenge to New Prez: Cut Costs, Improve Profits

Child World

	1987	1986	% Change
Sales (In Millions)	$749	$629	19.1%
Earnings (In Millions)	22.5	26.0	(13.5)
Stores	152	134	13.4

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research

AVON, Mass. — Child World has a brand new president who inherits a new set of marching orders for 1988: cut costs and improve profitability, rather than strive for market share.

After two years on the job, Gilbert L. Wachsman resigned as president in February, apparently a victim of his aggressive pricing policy that contributed to disappointing earnings results. Then, for four months, Dennis H. Barron, chairman of Child World's parent, Cole National, reassumed the title of president.

Effective June 15, Peter J. Hayes took over as president and as a board member. For the previous three years, Hayes had been the chairman of Gold Circle. Hayes left amid the turmoil engulfing Gold Circle, a Federated division that Robert Campeau has proposed selling to help pay down his $4.6 billion debt assumed in order to acquire Federated.

In announcing Hayes' appointment May 18, Barron said Hayes will "bring to the Child World team a breadth and depth of merchandising and management skills including extensive knowledge of the toy business."

Prior to joining Gold Circle, Hayes had served 16 years at Hills Department Stores, where he rose to vice president of merchandising, advertising and sales promotion.

At presstime, Hayes was unavailable for comment on his plans to boost profits.

But in February, Child World disclosed that it intends to tone down the aggressive pricing policies set during Wachsman's tenure. Toys "R" Us, the No. 1 toy specialty chain in sales and profits, had responded to Child World's price slashing by cutting its own prices in markets where they were in competition.

In 1987, sales at Child World jumped 19 percent but operating profits before income taxes declined by 13.5 percent. In comparison, profits at Toys "R" Us spurted 34 percent on a 28 percent sales increase. Child World revenues rose to $749.1 million in the fiscal year ended Jan. 30, 1988, from $628.8 million the previous year. Operating profits before taxes were $22.5 million, down from $26 million the year before.

A change in accounting rules regarding inventories enabled Child World to report net income of $14.3 million, an increase from $10.9 million. However, applying that accounting rule retroactively would result in flat earnings between 1986 and 1987, Child World said in its annual report.

New Child World president Peter Hayes is expected to continue to tone down the chain's aggressive price slashing policy which has resulted in disappointing profit figures.

Pre-tax income actually fell to $22.5 million in 1987 from $26 million, and only a reduction of $4.1 million provision for income taxes produced an increase in operating profits. Child World's effective tax rate for 1987 fell to 48.9 percent from 57.9 percent in 1986. The 1988 tax rate isn't readily available.

In his letter to stockholders in the 1987 annual report, Barron stated that he had reassumed the presidency "in order to modify certain operating strategies designed to improve profitability" but his statement lacked any specifics about those changes in operating strategy.

In addition to aggressive pricing, "increased costs of advertising, other programs and higher than expected inventory shrinkage in our self-service electronics centers" also held back earnings, Barron wrote.

Profits amounted to 1.53 percent of 1987 sales, concluded Kurt Salmon Associates in its 14th annual profile of retailing. That compares with 6.5 percent at Toys "R" Us.

During the first quarter ended April 30, 1988, the profit picture worsened for Child World. Sales rose 14.8 percent to $119.6 million from $104.2 million in the same quarter of 1987. The chain's customary first period loss increased, however, to $4.4 million, or 38 cents a share, from $2.8 million and 24 cents a share a year ago.

In releasing the results, Barron blamed the larger first quarter loss on the higher expenses of the 18 new stores opened last year and the new distribution center opened this February. "We are optimistic that [unspecified] operating strategies implemented in early 1988 will yield significant improvements in overall results this year," Barron said.

Hayes likely will work more on profits than market share—now increased to more than 5 percent—said Daniel D.

(Continued on page 97)

Newly Acquired Auto Giant Continues Expansion

Following the acquisition of Western Auto last April in a deal valued at $402 million in cash and assumption of debt, Sears, Roebuck & Co. will command close to $3 billion in revenues from automotive parts and service.

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In announcing the acquisition of Western Auto, Sears said each chain will continue to operate under its own store name and merchandising program. So far, no sweeping executive changes have surfaced at Western Auto.

As a public entity, Western Auto lived in the public eye for just 15 months after its private owner, Wesray Corporation, sold a 37 percent interest to the public.

Wesray, whose principals include former treasury secretary William Simon, acquired the chain from Beneficial Finance in December 1985. Beneficial had owned it since 1961.

A look at the indicated profits in the deal for Wesray suggests why the wave of corporate takeovers continues to crash over retailing.

Wesray paid Beneficial about $340 million for Western Auto. In addition, it laid out $35 million for Tire America, $15 million for NTW, invested $19.8 million in 33 new stores last year (for a net gain of 25 units after closing eight old stores) and 11 new Tire America stores and paid $3.3 million, net, in 1986 for about 24 White Auto stores, for an indicated total outlay of $413 million.

Besides the $402 million consideration from the Sears buyout, Wesray garnered $56.5 million when it sold 4.8 million shares, or about a 37 percent interest, to the public in January 1987, for an indicated gross profit after 15 months of $33.3 million. That includes $7.8 million in 1986 net income, when Wesray owned the chain privately.

In a new expansion strategy for 1987, Western Auto developed a true franchise system and is testing several units.

Under its associate system, owners get the right to carry the Western Auto name but are under no obligation to carry Western Auto merchandise and pay no royalties.

Under the new franchise system, store operators pay franchise fees and are required to follow chain policies on merchandising and service.

In an operational shift, Western Auto dropped its private credit card in January, when it had 430,000 customers. It sold $172 million in accounts receivables to NCNB National Bank of Georgia, which now handles the credit purchases of its customers.

In line with its interest in tires, Western Auto expanded its private label tire program for its stores. In mid-1987, it started a branded label program that includes stocking several major labels, such as Michelin and Goodyear, and setting up a special order system that allows customers to order many major brands produced around the world.

Challenge to New Prez: Cut Costs, Improve Profits

(Continued from page 95)

Barry, retail analyst for Kidder, Peabody & Co.

Price cuts helped boost sales by 40 percent over two years, but that increased market share resulted in only modest profit gains. Child World was even cutting prices on toys that were in short supply, he said.

In addition, "Child World needs to work on store operations," Barry said. "A lot of older stores are sloppy."

Child World "has to generate profit," said Robert J. Schweich, managing director and toy industry analyst for Wertheim Schroder.

Hayes will continue the policy that Barron set of being less aggressive on pricing, Schweich predicted.

In a merchandising move, Child World followed the lead of Toys "R" Us in taking on disposable diapers chainwide last year. Diapers, however, often are priced as a traffic-building loss leader, or at best produce little profit.

Child World also established a full candy department last year, along with expanding its party goods department. Unlike diapers, candy does produce good margins.

Among 1987 improvements to operating systems, Barron listed computer processing for basic item purchase orders and a chainwide rollout of computerized store labor scheduling, which Child World began in 1986.

Among facilities improvements, Child World opened in February 1988, a seventh distribution center, which it anticipates will cut transportation costs while allowing better service to stores.

Child World plans to open 15 new stores this year, but so far has disclosed nothing about new markets.

In 1987, the chain opened 18 new stores, pushing its store count to 152 by year-end. Those included stores in four new markets: Flint, Mich.; Baltimore, Md.; Charlotte, N.C.; and Amarillo, Texas.

Child World operates Children's Palace and Child World stores in 30 states.

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Prodigy to Give Big Apple a Taste of PC Shopping

(Continued from page 1)

service providers as airlines, banks and brokerage houses.

Prodigy plans to enter 16 additional markets next year, with the 20 cities representing 41 percent of U.S. households. The long term goal is to be in the top 100 metro areas with about 80 percent of the nation's homes "in a few years," said Harry Smith, senior vp, commercial marketing.

Prodigy next year will also launch an electronic data interchange (EDI) service for retailers and vendors, with the first user being Artec Inc., a wholesale distributor of prerecorded videocassettes in the northeastern United States (see *DSN*, May 23, pg. 7).

Last month, PRODIGY began promoting its service on cable TV and through direct mailings to computer owners in the three cities—Atlanta, Hartford, Conn., and San Francisco—where it launched its service. PRODIGY can also be accessed by company employees at the White Plains headquarters and at their homes in the area.

The 30-second and 60-second cable TV ads and direct mail pieces play up PRODIGY's flat $9.95 monthly subscription fee; competitive with that of a local newspaper delivery service, diversified shopping and information services, and its easy-to-use format requires no technical background or experience, a selling feature deemed important to family members who aren't computer literate.

The electronic retailer this month put into effect a new schedule of charges to retailers and service providers that reflects PRODIGY's transformation from its prior experimental stage into an on-going national operation. Companies that now sign up will do so under the new schedule, which is higher than the fees charged firms that helped pioneer the service.

The new charges illustrate Prodigy's effort to be more responsive to the needs of retailers and service providers, including having clients or advertisers devise their own ads and promotional schedules.

The new fee schedule provides a client with a full complement of ads for $25,000 to $85,000, depending on the number of frames or "pages" used, the number of viewers seeing the ads and the cost of producing the messages.

Smith said the new rates provide "greater flexibility for our clients. They can now buy a seasonal package or even a monthly promotion. Prodigy's maturity and growth mean we can now offer clients just what they want."

The new schedule, just released this month, contains two charges, one for the cost of creating and delivering frames of a retailer's ads and taking orders and the other based on PRODIGY's circulation or number of consumers viewing the service.

He said that Prodigy was ready to "license our frame creation technology" to clients and their ad agencies "and train their people to make their own frames."

Previously, during the test phase, advertisers signed on for a 12-month period, with the rates ranging from $10,000 to $75,000, depending on the number of PRODIGY frames they used and order processing options. Clients paid $10,000 for about 10 frames to $75,000 for 200 frames, with the number of products dependent on the number of frames used to merchandise an item.

PRODIGY's slow, measured expansion denotes the marketing and technical challenges facing the company, a four-year-old partnership between IBM and Sears, Roebuck which have spent an estimated $400 million-plus to develop the service.

While Prodigy, in its marketing, is interested in gaining subscribers, its early advertising effort is primarily designed to develop awareness of the service among computer owners—and even nonowners who are looking for reasons to buy a machine. These inaugural activities are building to the main promotional thrust this fall when a much wider ad program will be launched that will also use network TV, tie-ins with computer specialty stores, other retailers and specific computer vendors, PC user clubs, and possibly newspapers.

PRODIGY is using cable TV in the three cities to target its ads to demographically desired communities that are home to the service's prime consumer group: higher-income professionals earning over $40,000, inclined to shop through such non-store retail sources as catalogs and telephones and who are computer owners or likely to buy a PC within the new few years.

The advertising's goal: impressing computer owners with the benefits of signing up and using PRODIGY while also convincing non-PC owners that they need the service, with PRODIGY the enhancement that will make a computer a true home appliance.

The fall ad push will coincide with the full rollout of PRODIGY's shopping and information providers. While over 100 advertisers have signed up, only half are actually offering some type of service, with one key client, home grocery shopping, due to go on-line this fall and, so far, just in two cities: Atlanta, where Kroger will provide the service, and San Francisco, where GROCERY EXPRESS, a telephone and computer food operator, is the advertiser.

Familiar Names Team Up for New Catalog Showroom Chain

(Continued from page 1)

fall in major malls in Louisiana, Fleming told *DSN*. These stores will distribute about 150,000 copies of a condensed 256-page catalog that will feature the jewelry, giftware and home goods sections of the basic Associated Charter book.

At least one larger freestanding traditional showroom is also being considered, possibly in a New Orleans suburb. It will use about the same number of copies of the standard 424-page Associated Charter catalog.

Fleming said, "there's no one like our specialty showrooms now in the market. They will merchandise jewelry, giftware and home goods," with the exact assortment to be developed by Fleming and the buying staff he is currently putting together.

The specialty showroom chain will differ from the jewelry stores that are now ubiquitous in malls by offering fine jewelry at a discount and by merchandising a broader mix (including giftware and home goods) than just diamonds, rings and watches. The stores, however, won't carry consumer electronics, sporting goods, photo, toys and juvenile products that are found in full-line showrooms.

The projected larger traditional showroom will be a full-line store, selling all the products found in the catalog.

The senior Wilson, who sold H.J. Wilson in 1984 to Service Merchandise, doesn't hold any post with the proposed new showroom operation, but is an advisor and consultant, Fleming said. When Wilson sold H.J. Wilson, it was the third largest showroom chain with $520.5 million in sales.

Wilson Jr., who had been involved in a number of business ventures in Florida, is HWI's chairman and chief executive; Fleming is president and chief operating officer.

At one time, Fleming had been senior vp, jewelry merchandising of H.J. Wilson, but left the company prior to its sale to Service. At Best, he headed up the jewelry merchandising operation and helped to develop the Best Jewelry specialty store division which consists of 2,000-square-foot jewelry and giftware units in malls.

The only other former H.J. Wilson executive with the proposed Huey Wilson chain is Gregory J. Cotter, secretary, treasurer. Cotter had been H.J. Wilson's senior vp and treasurer and cfo. When the cataloger was sold, he joined the senior Wilson in his new venture, Great America Corp., a Baton Rouge-based bank holding company.

Fleming has already hired Luise Stone as giftware buyer, and is talking with a number of former H.J. Wilson merchandisers. Stone had been with O.G. Wilson, which went bankrupt last year and United Jewelry, which is currently being liquidated (see *DSN*, July 4, pg. 2).

The mall stores HWI is eyeing are believed to be former United units that were returned to their landlords as part of the liquidation. Fleming said HWI was negotiating for a number of sites and expected to sign some leases by the end of next month; the stores would be opened in September and October.

The core of the Huey Wilson chain will be located in malls because of their high traffic. Huey Wilson also expects to generate its own traffic through the use of catalogs, fliers, newspaper ROP and some radio and some TV ads.

The catalog will be called the Huey Wilson Gift Guide.

Fleming said at least four showrooms are planned, but Associated Charter, in an announcement to its members and the trade, said HWI projected six to eight units. The site of the planned full-line showroom was identified as Slidell, outside New Orleans.

Fleming told *DSN* the first units would be in Louisiana, but future growth would take place in other states.

—Arthur Markowitz

Former Allied Stores Prez Creates Bidding War for Gold Circle Chain

(Continued from page 1)

more people, unsure of what will happen, might leave."

Now that there's a competing bid for the entire chain, Smailes said he doesn't expect any resolution of Gold Circle's future before the end of the month. "We had hoped that Mr. Campeau would have wanted to clear up the process, but instead his strategy has been to institute an auction process," Smailes added.

Smailes said that Morosky, like Gold Circle management, is interested in the entire chain. Smailes added that he's heard Wal-Mart and Hills Department Stores are interested in certain stores.

However, when Robert Campeau, chairman of Campeau Corp., acquired Federated Department Stores, he made it clear he wanted to unload the Worthington, Ohio-based discounter, along with other Federated divisions, in its entirety, not piecemeal.

Smailes added, "Glass and I remain confident that our management-led LBO has a very good chance at success."

There have also been reports that Morosky, if successful in acquiring Gold Circle, is interested in combining the chain with another discounter to form a national discount chain.

Morosky did not return phone calls to his home in Columbus, Ohio.

Smailes refused to comment on the actual bidding. He would neither confirm nor deny industry reports that place the bidding for the 21-year-old chain between $300 million and $400 million. Book value of the discounter is estimated at about $300 million.

When asked whether Gold Circle management has any expansion plans for the chain if its LBO is successful, Smailes replied, "That's what we're talking about now."

When asked about the Bradlees units up for sale, he said, "Our financial partners would have to be very much involved in any decision; the Bradlees units would represent a major expansion."

Smailes admitted that while he is "very disappointed" over the flight of top Gold Circle executives and other employees during recent months, he's "pleased we've kept as many key people as we have."

Among those who left Gold Circle were Peter Hayes, chairman (now heading Child World); Steve Fishman, senior vice president (now at Caldor with similar duties), and Bill Weikert, a vice president and divisional merchandise manager (also now at Caldor). Other merchandisers have also left, many of them going to Caldor (see story, *DSN*, June 6, page 1).

Morosky, who was vice chairman of The Limited before his brief stay at Allied, has been reported as saying that the discount business is ripe for change. He went on to say that while some discounters are still being run as regional chains, they could profit from economies of scale by expanding into national chains.

Morosky is working with Odyssey Partners, a New York-based investment firm, and First Boston is working with the Gold Circle management team.

In related news, Kohl's Department Stores is reportedly interested in acquiring Main-Street, the struggling apparel division of Federated-Allied, which Campeau has also put up for sale.

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